

## **Sri Lanka Institute of Textiles and Apparels – 2016**

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The audit of financial statements of the Sri Lanka Institute of Textiles and Apparels for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of the 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.

### **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 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 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 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 Sri Lanka Institute of Textiles and Apparels as at 31 December 2016 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 Sri Lanka Public Sector Accounting Standards

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The following observations are made.

##### (a) Sri Lanka Public Sector Accounting Standard 07

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Even though a sum of Rs.822,480 had been paid to the Department of Valuation in the year 2015 for revaluation of assets of the Institute, action had not been taken to obtain the accurate revaluation reports on assets and to adjust the fair values thereof to accounts of the year under review in terms of the Standard.

##### (b) Sri Lanka Public Sector Accounting Standard 02

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- (i) Advances of Rs.61,200 granted for the preparation of Human Resources Management System and a sum of Rs.144,000 payable for an air conditioner in the preceding year, had been shown under investment activities as cash outflow for purchasing fixed assets for the year.
- (ii) The sum of Rs.6,000,000 receivable under the “Mini Apparel Teachers Training Programme” for the year under review had been shown under financial activities as cash inflow of the year.
- (ii) A sum of Rs.1,664,335 adjusted to the Government grants for rectification of the accounting of amortization relating to the preceding year, had been shown under the financial activities as cash outflow of the year under review.
- (iv) Provisions for depreciation amounting to Rs.211,983 and adjustments of Rs.43,800 made for property, plant and equipment **which are not financial transactions**, had been **shown in the cash flow statement under the cash flow received for operating activities**.

- (v) Over provisions for doubtful debts amounting to Rs.191,763 and profits on disposal of fixed assets of Rs.107,505 had not been adjusted under the non-financial adjustments of the cash flow statement.
- (vi) Balances of Rs.669,686 and Rs.353,150 that remained at the beginning of the year under review under the Productivity Promotion Project and Eastern Provincial Small Industries Group Project, had been transferred to the income of the year and those balances had not been adjusted under non-financial adjustments of the cash flow statement.
- (vii) The interest income of Rs.13,812,224 relating to the year had not been adjusted to the surplus of the cash flow statement and the interest income of Rs.10,394,952 received by cash had not been indicated as cash inflow under the financial activities.

### 2.2.2 Accounting Deficiencies

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The following observations are made.

- (a) The Value Added Tax included in the capital grants received from the Government in the year under review had not been transferred to the Value Added Tax Control Account. As such, the balance of capital grants had been overstated by Rs.381,914. Accordingly, the Value Added Tax had been under-remitted to the Commissioner of Inland Revenue by the said amount.
- (b) A sum of Rs.39,870 had been amortized for the year under review for 12 items of fixed assets valued at Rs.538,153 purchased from the funds of the Institute in the year under review considering as capital grants.
- (c) A sum of Rs.134,100 payable **in the year under review** to the Open University on behalf of 04 officers for obtaining the Technical Education Degree for the human resources development, had not been brought to account.
- (d) A sum of Rs.820,750 had been received as a capital grant from the Treasury for an Executive Development Programme of the Postgraduate Institute of Management. Even though that amount had not been spent for the relevant purpose even up to 31 December 2016, it had been amortized in the year under review.
- (e) The sum of Rs.72,000 paid to the visiting Lecturer who participated in the “Mini Apparel Teachers Training Programme” which was conducted at the Vocational Training Centre in Sammanturai, Ampara for a period of 15 days in September and October 2016, had been debited to the Project Account instead of accounting as an expenditure. As such, the surplus of the year under review had been overstated by the similar amount.

- (f) The cost relating to the fixed assets disposed of in the year under review and a sum of Rs.153,950 received from sale of those assets, had not been adjusted to the **Account of Removal of Assets**. Instead, only the amount received from sale of assets had been erroneously credited to the sundry creditors.

## **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) The trade debtors balance as at the end of the year under review amounted to Rs.20,762,760 and that balance included the debtors balance of Rs.4,043,518 exceeding 02 years.
- (b) Even though the Value Added Tax totalling Rs.290,441 brought forward in the accounts of the Textile Training and Services Centre, had been shown as a balance receivable since the establishment of the Institute in the year 2011 up to now, action had not been taken to settle those balances even by the date of this report.
- (c) The salary amounting to Rs.43,280 paid in the year 2014 to a driver released to a state company, could not be reimbursed and had been brought forward in accounts as sundry debtors instead.
- (d) Bid securities of Rs.17,500 shown under sundry creditors were the bid securities placed by cash in the year 2011 by suppliers and those values had been continuously shown in accounts without taking action to settle or take them into revenue.

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

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In terms of Public Enterprises Circular No.95 of 14 June 1994, approval of the General Treasury or the Ministry of Public Administration should be obtained for all allowances paid to employees of Corporations, Boards and Statutory Bodies **on the approval of the Secretary to the Ministry concerned**. Nevertheless, contrary to that, sums totalling Rs.1,096,108 and Rs.1,574,691 had been paid to the staff in the years 2015 and 2016 respectively as additional allowances from the Fund of the Sri Lanka Institute of Textiles and Apparels.

## **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 Institute for the year under review had been a surplus of Rs.38,418,981 as compared with the corresponding surplus of Rs.2,426,420 for the preceding year, thus indicating an improvement of Rs.35,992,561 in the financial result of the year under review as compared with the preceding year. The increase in the income from interest by Rs.7,742,637 and in the income from trainings by Rs.19,455,673 of the year under review had been the main reason for the above improvement.

An analysis of the financial results of the year under review and 4 preceding years revealed a financial surplus from the year 2012 to the year 2016. Nevertheless, it had fluctuated annually. However, in readjusting the employees' remuneration, the Government tax and the depreciation on non-current assets to the financial result, the contribution of the Institute which was Rs.76,687,301 in the year 2012 had improved to Rs.137,931,510 as at the end of the year 2014. However, it had decreased to Rs.111,088,905 in the year 2015 and further, it had again improved to Rs.142,154,257 in the year under review.

### 3.2 Analytical Financial Review

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The total income and expenditure of the Institute had been Rs.156,212,085 and Rs.153,915,728 respectively, after deducting the income from interest on deposits and deferred income from the total income of the Institute. As such, the surplus achieved from key functions of the Institute amounted to Rs.2,296,357 and the net profit ratio was 1.47 per cent.

## 4. Operating Review

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### 4.1 Performance

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The training of personnel 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 performance relating to execution of those activities as compared with the preceding year is given below.

	<b>Activity</b>	<b>2016</b>	<b>2015</b>	<b>Variation</b>	<b>Percentage of the Variation</b>
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	<b><u>Trainings</u></b>				
(i)	Number of Courses Conducted	167	151	16	10.60
(ii)	Number of Students participated	4,048	4,402	(354)	(8.04)
(iii)	Income from Training Courses (Rs. Millions)	90.89	71.43	19.46	27.24
	<b><u>Inspections</u></b>				
(i)	Number of Inspections	43,937	39,424	4,513	11.45
(ii)	Inspection Income (Rs. millions)	44.8	43.9	0.9	2.05
	<b><u>Consultancy Services</u></b>				
(i)	Number of Consultancy Services	09	10	(1.0)	(10)
(ii)	Income from Consultancy Services (Rs. Millions)	4.2	3.5	0.7	20

The following observations are made.

- (a) Even though the number of courses conducted relating to trainings in the year under review had increased by 10.6 per cent as compared with the year 2015, the number of students participated had decreased by 8.6 per cent.
- (b) Even though the participation of 2,759 students for 202 courses had been expected according to the Action Plan for the year 2016, only 167 courses had been conducted by the end of the year with the participation of 4,048 students.
- (c) Out of 138 courses planned to be conducted in the year 2016 by the Institute except for the courses conducted at the request of external parties and institutions, 66 courses or 48 per cent had been conducted.
- (e) Even though 06 years had elapsed by the end of the year 2016 since the establishment of the Institute in the year 2009, necessary arrangements had not been made even by 31 December 2016 for conducting Postgraduate and Degree Programmes on Textiles and Apparels Industry in terms of paragraph 04(a) of Part 01 of the Sri Lanka Institute of Textiles and Apparels Act, No.12 of 2009.
- (e) Even though the issuance of Certificates of Conformity to the persons engaged in the Textiles and Apparels Industry conforming to the International and National Standards and the Standard Systems of Companies, 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 other courses except for the Course of “Work Study” conducted by the Institute.

#### **4.2 Management Activities**

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The following observations are made.

- (a) A Jeep not in running condition, had been obtained from the Ministry of Industries and Commerce in November 2014 on temporary basis and a sum of Rs.362,175 had been spent therefor as expenditure on repairs. However, it had not converted to running condition and as such, it had been returned to the Ministry. Moreover, 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 obtain the legal ownership of the Motor Vehicle received to the Institute as a grant in the year 1997.
- (c) In terms of paragraph 10 of the Public Finance Circular No.02/2015 of 10 July 2015, action had not been taken even by the end of the year under review to remit proceeds from sale of 05 motor vehicles amounting to Rs.3,933,975 to the Treasury, which were received by the Institute from the Treasury and sold in the year 2015.

#### **4.3 Resources of the Institute given to other State Institutions**

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Even though the double cab motor vehicle given to the Institute by the General Treasury in the year 2012 had been released on 04 September 2013 for the use of the line Ministry, the Institute had spent a total sum of Rs.910,472 as its repair expenses.

#### **4.4 Delayed Projects**

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The approval of the Cabinet of Ministers had been received in the year 2015 for the construction of a new four storied building at a cost of Rs.150 million for the Sri Lanka Institute of Textiles and Apparels and it had been further indicated that out of this amount, a sum of Rs.15 million should be incurred by the Institute. Moreover, a sum of Rs.18 million had been received from the Treasury in December 2015 for the planning of that building and for the construction of the first floor thereof and out of that, only a sum of Rs.1,048,201 had been spent even by 31 December 2016. Constructions of the first floor had not been commenced even by 31 July 2017 and the remaining amount had been invested.

#### **4.5 Staff Administration**

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The following observations are made.

- (a) The approved cadre of the Institute stood at 140 and 45 vacancies existed. Even though the approved cadre of Work Aides of this Institute which consists of 80 officers in senior, tertiary and secondary levels, stood at 13, it was observed that only one Work Aide is engaged in the service.
- (b) According to the Scheme of Recruitment approved by the Department of Management Services on 23 March 2015, the Efficiency Bar Examinations relating to each post had not been conducted even by 01 June 2017.

#### **4.6 Deficiencies in implementation of Projects**

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The following observations are made.

- (a) Training courses for 150 trainees had been targeted for the commencement of 150 small scale industries under the “Mini Apparel Teachers Training Programme” in the year 2016. Even though it had been set out in the project proposal that this project should be completed within 06 months, only 31 trainees out of 150 to be trained, had completed the training even by the end of the year under review.
- (b) Training programmes for 380 trainees relating to 19 Centres where training projects had not been commenced as at 01 January 2016, had not been conducted even in the year under review.

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

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### **5.1 Internal Audit**

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Only an Officer and a Management Assistant had been deployed in service for internal audit and the Institute had not taken action to carry out an effective internal audit by attaching an adequate staff.

### **5.2 Procurement Plan**

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Even though the Institute had prepared a Procurement Plan, it had not been prepared in compliance with Guideline 4.2 of the Government Procurement Guidelines. 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, the Institute had not prepared the Procurement Plan accordingly.

### **5.3 Budgetary Control**

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The following observations are made.

- (a) Even though the budget for the year 2016 had been again revised on the approval of the Board of Directors dated 26 October 2016, action had not been taken to revise the Action Plan in accordance with the revised budget.
- (b) Variances ranging from 15 per cent to 152 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 management control.

### **5.4 Performing the Environmental and Social Responsibilities**

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Data and information obtained from the reports of the Central Bank of the year 2016 revealed that the Sri Lanka had spent a sum of approximately US\$ 2.7 Billion for the importation of textiles and textile items in the year 2016. Further, the necessity of finding out the opportunities of improving the production capacity of handloom textiles and textile industries had been emphasized. Moreover, the Apparels Sub Division which is the second and largest Division of the Industrial Production Index, had **reported** a decline of 2.4 per cent and shown sluggishness in the operation in the year 2016.

Those reports revealed that the Institute of Textiles and Apparels had reached a sum of Rs.710,768 million which is one of the highest values of the overall exportation made in the year 2016 and the Gross National Income Contribution amounted to Rs.383,411 million. Even though the contribution from the production of textiles, readymade garments, leather and leather goods to the Gross National Income, had gradually increased from the year 2012 to the year 2014, it was deteriorating by the year 2016.



The training of personnel for the industries related to the production of textiles and apparels and services such as inspections and consultancy are the key functions of the Institute and it was observed in audit that this Institute is responsible for contributing to the national economy by achieving those objectives and functions.

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

<b>Areas of Systems and Controls</b> -----	<b>Observations</b> -----
(a) Debtors Control	Failure in implementation of a proper procedure for the recovery of loans by the Institute.
(b) Operating Control	Even though the Institute had conducted many Certificate Courses and Diploma Courses, an Examination Division had not been established for conducting examinations of those courses impartially and regularly.