

Sri Lanka Institute of Textile and Apparel – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Institute of Textile and Apparel for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and the Financial Act No. 38 of 1971 . My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Institution or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Institute is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Auditor's Responsibility in Auditing Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following.

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Institut., and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute ;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statement

1.5.1 Internal Control over the preparation of Financial Statements.

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with Management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with Management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non- compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Non-compliance with reference to the standard	Comments of the Management	Recommendation
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<p>Although the residual value and useful life of an asset should be reviewed at the end of each annual reporting period according to the Sri Lanka Public Sector Accounting Standard No. 07 , Fully depreciated property plant and equipment costing Rs.204,839,496 Although their useful life is used in the institution without review The assets had not been re-valued and their fair value has not been adjusted to account.</p>	<p>Revaluation activities are being carried out.</p>	<p>Actions should be taken in accordance with the Accounting Standard.</p>

1.5.3 Accounting Deficiencies

The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) The receivables at the end of the year under review for the 'Banana Project' from the Ministry had been overstated by a sum of Rs. 10,250,125 .	Adjustments have been made to correct in the year 2019 .	Accounts receivable should be taken in to accounts accurately.
(b) A sum of Rs. 460,008 incurred for more than the estimated cost for the three programmes implemented under the provisions of the Line Ministry in the year under review had been stated under debtors as receivables from the Ministry without considering as a cost of the year.		
(c) A sum of Rs. 3,108,500 applied for installation of a CCTV camera system amounted to Rs. 5,442,000 was shown as receivable from the Treasury within the sundry debtors and therefore the receivable account balance amounted to Rs. 3,108,500 had been overstated in the statement of financial position.	It was impossible to purchase a C.C.T.V Camera System.	The financial provisions should be applied only for expenses incurred during the year.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

The following observation is made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
Out of the trade debtor balance Rs. 6,780,996 shown in the financial statements at the end of the year under review a sum of Rs. 4,127,737 were debtor balances over 03 years.	The Ministry has been informed to write off the debtor balances which had elapsed more than 03 years.	Establish a systematic programme within the institute to recover the money from the debtors.

1.7 Non-compliance with Laws, Rules, and Regulations

The following observation is made.

Audit Observation	Non – compliance	Comments of the Management	Recommendation
Public Enterprises Circular No. 95 of 14 June 1994	Although all grants have to be approved by the relevant Ministry, Treasury and other relevant institutions a sum of Rs. 2,961,879 had been paid in the year 2018 by the management as weekend training school allowances, course co-ordination allowances, project co-ordination allowances, administration secretary's allowances and accounting allowances.	The payments were made with the approval of the Board of Governors and informed to the Treasury.	The approval of the General Treasury should be obtained with the approval of the Secretary.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs. 24,658,844 and the corresponding surplus in the preceding year was Rs. 54,535,545. Accordingly, a deterioration of Rs. 29,876,701 in financial result was observed. The decrease in training income in the year under review by Rs. 29,443,545 had mainly attributed to this deterioration.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) The management had invested in excess funds amounting to Rs. 214,925,758 and an interest income amounted to Rs. 17,980,982 had been earned as interest income. However, it is observed that the funds had not been used effectively to fulfill the main objectives of the institution.	Excess funds are invested in fixed deposits.	Funds should be effectively used to achieve the main objectives of the organization.

(b) Cabinet approval was granted on November 11, 2015 to construct a new four storied building with a view to providing basic amenities required to conduct courses and postgraduate and graduate courses in the field of textile and apparel and Cabinet approval was granted to change the re-building plan and construct a six-storey building on 19 December 2017. The Department of Buildings had estimated the cost of the new building at Rs. 505,910,000 . The Treasury had granted Rs. 23 million as 18 million for the construction of the building in 2015 and Rs. 5 million for the year 2017. Out of that only a sum of Rs. 3.6 million had been spent by the end of the year under review. The procurement process for the construction was not completed by 31 May 2019 and the construction work has not been commenced.

Construction works will be carried out in future.

The allocation provided by the Treasury should be utilized properly.

3.2 Delays in Projects or Capital Works

The following observation is made.

Audit Observation

 Out of provisions made by the Line Ministry in the years preceding the year under review for the implementation of the programmes Value added to Wet Processing Program, Scholarship Fund, Construction of Maradamunai Yarn Coloring Center, Health Care Program and Sewing Machine Repair Training Program at the beginning of the year under review amounting Rs. 420,537 , Rs. 236,867 , Rs. 2,243,450 , Rs. 1,406,663 and Rs. 1,047,344 respectively had not been used for any purpose during the year.
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Comments of the Management

 There were no transactions occurred in the year under review.

Recommendation

 The allocations provided by the Treasury should be utilized properly.

3.3 Procurement Management

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
<p>(a) The engineering estimate for the proposed interior decoration of the restaurant was Rs. 6,000,000 and a sum of Rs. 6,411,515 had been received from the Treasury in the month of December 2017 for that. Although the contract had to be completed within 60 days from 09 September 2018 as per the Agreement between two parties, the relevant contract had not been completed by now. A sum of Rs. 2,101,562 had been paid as providing consultancy service and advance.</p>	<p>Actions will be taken to complete the construction work in future.</p>	<p>The provisions provided by the Treasury should be properly utilized.</p>
<p>(b) As um of Rs. 10,000,000 had been estimated for the renovation of the conference hall and a sum of Rs. 9,695,000 had been received from the Treasury on 30 October 2018 for that. As the procurement process was not carried out properly, that amount remained at the end of the year under review.</p>	<p>The renovation works were commenced in the month of April 2019.</p>	<p>The provisions provided by the Treasury should be utilized properly.</p>
<p>(c) A sum of Rs. 3,260,000 had been approved by the Ministry of Industry and Commerce for the construction of a library of textile in the year 2018. The furniture and equipment amounted to Rs. 392,302 had been purchased in the year 2018 for this library. The purchased equipment were stored in idle in the weaving workshop of the Institute without being used because of the construction of the library for textile had not been commenced.</p>	<p>Due to the problem of building space, it could not be done. The Textile Library will be built in future.</p>	<p>The Textile Library should be commenced as approved.</p>

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| <p>(d) Since a part of the old building had to be demolished to build a new 4 storied building , a building on rent in a monthly installment of Rs. 80,000 had been obtained for a one year period from 01 June 2017 for carrying out those office work. Due to not commencing the construction of the new building the building obtained on rent had been left unutilized and some of the trainees were accommodated there for only a few days. Even though the agreement period of that building had been cancelled from 16 April 2018 , it had been paid a sum of Rs. 960,000 as building rent and a sum of Rs. 8,353 for water and electricity.</p> | <p>Since the proposed building was supposed to be built soon, a rented building was obtained.</p> | <p>The closure of the building without using is an uneconomic transaction.</p> |
| <p>(e) A Performance Security should be presented in accordance with 5.4.8 (a) of the Procurement Guidelines and the Performance Security should be valid for 28 days after the date of completion of the work in terms of the with 5.4.8 (b) . The bidding had been called under the National Competitive Bidding Process on 14 October 2017 to carry out the proposed interior decoration of the dining hall of the Institution and the bid had been awarded at a cost of Rs. 8,024,885 on 28 November 2017 . The validity period of the Performance Security obtained for the selected contract amounted to Rs. 802,488 had expired on 07 March 2018 and the validity period of the Performance Security had been extended again only from the 23 July 2018 to 31 December. Even though the period of advance payment protection submitted for the advances had expired for more than 01 year 03 months,</p> | <p>Actions will be taken to to extend the duration of performance Security Bond in future.</p> | <p>The proposed interior decoration of the restaurant should be completed.</p> |

arrangement had not been taken to renew it and an engineers' report on completion of the contract work had not been furnished.

3.4 Human Resources Management

The following observation is made.

Audit Observation

 The approved staff the Sri Lanka Institute of Textile and Apparel at the end of the year under review was 140 and the actual staff strength was 93 and there were 47 vacancies. The number of vacancies had risen by five in comparison to the previous year and At the end of the year under review, no action was taken to fill these positions.

Comments of the Management

 Recruitment will be done after considering the cost of the institution.

Recommendation

 Employees should be recruited for vacancies

4. Accountability and Good Governance

4.1 Annual Action Plan

The following observation is made.

Audit Observation

 Even though 208 training courses were planned for the year 2018 as per the Action Plan , as per the monthly training programme, only 47 courses were implemented.

Management's Comment

 The lack of applications of students in certain courses has led to their failure to take courses.

Recommendation

 Courses should be conducted according to the Action Plan.