

Head 303 – Department of Textile Industries

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Department of Textile Industry for the year ended 31 December 2018 comprising the statements of financial position as at 31 December 2018 and statements of financial performance and cash flow statement for the year then ended 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. In terms of section 11(1) of the National Audit Act, No.19 of 2018, the summary report including my comments and observations on the financial statements of the Department of Textile Industry was issued to the Accounting Officer on 01 July 2019. In terms of section 11(2) of the National Audit Act, the Annual Detailed Management Audit Report relating to the Department was issued on 13 June 2019 to the Accounting Officer. This report which should be read in conjunction with Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka is submitted to Parliament in terms of Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Department of Textile Industry as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

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 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Financial Statements

The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Accounting Officer determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

As per Sub-section 16(1) of the National Audit Act, No.19 of 2018, the Department 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 of the Department.

In terms of Sub-section 38(1) (c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department and carry out periodic reviews to monitor the effectiveness of such system and accordingly make any alterations as required for such systems to be effectively carry out.

1.4 Auditor's Responsibility for the 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 summary 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 skepticism 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 Department's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, 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.

I communicate with the Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal Requirements

As required by section 6(d) of the National Audit Act, No.19 of 2018, I state the followings.

As there was no preparation of financial statements by the Department of Textile for the preceding year, recommendations on financial statements had not been made by the Department.

1.6 Comments on Financial Statements

1.6.1 Non-compliance of financial statements with the provisions of the Circulars

Even though financial statements are to be prepared in terms of State Accounts Circular No. 267/2018 dated 21 November 2018, in the following instance, the said requirements were not met.

Audit Observation	Recommendation	Comments of Accounting Officer
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(a) An imprest adjustment account was not prepared in terms of Sub-section 7(VI) of the State Circular No.267/2018.	An imprest adjustment account must be prepared in terms of State Accounts Circular No.267/2018.	It was noted to present relevant reconciliation accounts when preparing financial statements for the year 2019.
(b) In terms of paragraph 7.2 of the State Accounts Circular No.267/2018 dated 21 November 2018, even though the other Departments that collect revenue on behalf of the Revenue Officers must include such revenue as imprest from the Treasury in their Statement of Financial Performance, an amount of Rs.6,811,803 was entered under Non-tax Revenue and Other.	Accounts must be prepared in terms of State Accounts Circular No.267/2018.	This Department does not collect revenue on behalf of other Revenue Accounting Officers.

1.6.2 Accounting Deficiencies

(a) Statement of Financial Position

Audit Observation	Recommendation	Comments of Accounting Officer
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(i) Katubedda Complex and 15 buildings in 9 other places owned by the Department were not properly assessed and accounted. Only Rs.3000 was entered for buildings and constructions in the Statement of Non-financial Assets.	Statement of the Financial Position must be prepared in terms of the State Accounts Circular No.267/2018 dated 21 November 2018.	Information has been presented to the Department of Valuation for the purpose of estimating buildings and constructions and even though inquiries were made on several occasions, valuation reports have not been provided so far. There has been an entry of Rs.3000 under buildings and it was reported to the State Accounts Department to remove that from the computer system. Measures will be taken to correct it

promptly.

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| (ii) Even though -do-
Rs.2,712,855 for
buildings and
constructions and
Rs.648,115 for the
improvement of vehicles
have been spent during
the year under review, it
has not been entered to
the Statement of Non-
financial Assets. | Measures will be taken to
correct them. |
| (iii) Details of 2 vehicles in -do-
the cost of Rs.1,350,000
that were sold in 2018
were not included in the
Statement of Non-
financial Assets. | Measures will be taken to
correct the accounts,
including specific notes
relating to disposed vehicles. |
| (iv) A value of Rs.17,350,000 -do-
for passenger vehicles
(once the sales vehicle
value is reduced) was not
included in the Non-
financial assets. | Agree with the observation. |
| (v) A value of Rs.35,792,825 -do-
for Property Plant
Equipment Reserves was
not included under
responsibilities. | Agree with the observation. |

(b) Statement of Financial Performance

----- Audit Observation -----	----- Recommendation -----	----- Comments of Accounting Officer -----
(i) A difference of Rs.146,292,900 was observed due to the Imprest Balance as per the Statement of Financial Performance being Rs.97,895,850 and	Statement of Financial Performance must be prepared in terms of the State Accounts Circular No.267/2018 dated 21 November 2018.	Agree with the observation.

Balance as per Treasury
Records being
Rs.244,188,750.

- (ii) A difference of -do- Agree with the observation.
Rs.3,006,830 was
observed due to deposits
received as per the
Statement of Financial
Performance being
Rs.6,690,909 and Balance
as per the Treasury
Records being
Rs.9,697,739.
- (iii) A difference of -do- Agree with the observation.
Rs.3,914,298 was
observed due to advance
cash received as per the
Statement of Financial
Performance being
Rs.2,018,015 and the
Balance as per the
Treasury Records being
Rs.5,932,313.
- (iv) The sum of traveling -do- Agree with the observation.
expenses, supplies and
maintenance cost in the
amount of Rs.5,981,341
was not included in the
recurrent expenditure.

(c) Cash Flow Statement

----- Audit Observation -----	Recommendation -----	Comments of Accounting Officer -----
(i) The amount stated was Rs.4,132,504 less than the Net Cash Flow generated through operational activities.	Cash Flow Statement must be prepared in terms of the State Accounts Circular No.267/2018 dated 21 November 2018.	Agree with the observation.
(ii) The amount stated was Rs.360,000 than the Net Cash Flow generated	-do-	Agree with the observation.

through investment activities.

- (iii) The amount stated was -do- Rs.3,772,504 more than the Net Cash Flow generated through financial activities.

Agree with the observation.

1.6.3 Certification to be done by the Accounting Officer

Even though following matters are to be certified by the Accounting Officer as per Section 38 of the National Audit Act, No.19 of 2018, actions have not been taken accordingly.

Audit Observation -----	Recommendation -----	Comments of Accounting Officer -----
(i) The accounting officer must ensure that the Department has developed and maintained an effective internal control system for financial control, and the effectiveness of the system should be reviewed periodically and that necessary modifications should be made to ensure the effectiveness of the system and although such reviews must be made in writing and a copy of that should be submitted to the Auditor General, it has not been submitted to the audit that such a review was conducted.	Actions must be taken in terms of Section 38 of the National Audit Act, No.19 of 2018.	Actions will be taken to submit reports on the effectiveness of the internal control system to be audited in terms of Section 38 of the National Audit Act, No.19 of 2018.
(ii) The Accounting Officer must ensure that annual and other financial statements are prepared in due time and due to do audit observations stated in paragraph 2.2 of the report these requirements were not fulfilled.	-do-	Actions will be taken to correct them.
(iii) Although the Accounting Officer must ensure that there is	-do-	Actions will be taken to correct them.

an effective method to carry out the internal audit functions properly, according to the observations stated in paragraph 4 of the report, it has not been fulfilled.

2. Operational Review

2.1 Non-Performance of Functions

(a) Katubedda Training Center

Audit Observation	Recommendation	Comments of Accounting Officer
(i) Although 6 air conditioners amounted to Rs.1,528,350 were installed in the auditorium of the Katubedda Training Center on 28 December 2016, they had not been used as of 30 September 2019.	Machines should be used properly.	Since the capacity of the existing power supply to operate the air conditioners is insufficient, measures are being taken to supply a higher capacity.
(ii) Although there are 08 handlooms in the School of Textile Training and 15 handlooms in the Design Training Division of the Katubedda Training Center, 2 trainees and 4 trainees were trained respectively. Design Training Division was established to train teachers in Handloom Textile Schools in other provinces and even though there are 8 handlooms, 10 trainers were assigned to these 3 schools. According to that, it is observed that the human and physical resources available are underutilized.	Performance indicators on output level should be as per the indicators to achieve the desired output level.	It was kindly informed that about 20 students are enrolled for the one year course generally and even though there was a drop in number in 2019, if the numbers stay normal in the coming years, the said number of machines will be needed.

2.2 Annual Performance Report

Audit Observation

Although all entities must submit their Annual Financial Reports together with Annual Performance Report to be audited in terms of Sub-section 16(2) of the National Audit Act, No.19 of 2018, actions were not taken accordingly.

Recommendation

Annual Financial Statements must be submitted together with Annual Performance Reports in terms of the Act.

Comments of Accounting Officer

Performance Report for the year 2017 was presented to the Parliament. Performance Report for the year 2018 has been prepared and is being translated to Tamil Language.

2.3 Procurement

- (a) An amount of Rs.1,304,608 has been estimated for the renovations of Katubedda Training Center during the year under review and following observations are made in regard to that.

Audit Observation

- (i) Although in terms of Sub-section 7.10.1 (a) of the Government Procurement Guidelines, bidders' post-qualification testing should be implemented as a security measure in the National Competitive Bidding Process, it was not considered in evaluating bids.

Recommendation

Provisions of the Government Procurement Guidelines should be followed.

Comments of Accounting Officer

Agree with the observation. However, the technical evaluation committee has evaluated the post-qualifications of the institute with the lowest bid before awarding the lowest bid to the institution.

- (ii) In terms of guideline 8.13.4 of the 14th addition of the Government Procurement Guidelines dated 03 October 2007, instead of approving Rs.97,572 for the 10 percent net variation of Rs.975,720 which was the amount for the approval of contract of the renovation of the training center, 10 percent of the estimated value, that is to say Rs.130,450 was approved

Provisions of the Government Procurement Guidelines should be followed.

An amount of Rs.129,650 for the extra work done. Estimated amount of the Department for this is Rs.130,450. All additional payments were paid within 10 percent.

by the Department Head.

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| (iii) 11 items in the approved estimate for the renovation of the training center were not completed and these were worth Rs.160,560. | According to the specifications payments were only done for the work completed. | Agree with the observation. However, except for 2 items, the rest of the items were completed to an extent. |
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(b) An amount of Rs.744,782 was spent to laying stones and asphalt in the inner road of the Katubedda Training Center and following observations are made in regard to that.

Audit Observation	Recommendation	Comments of Accounting Officer
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(i) Although in terms of 7.8 of the Procurement Code, the bids submitted by the bidders were to be used for adjustment purposes but were not complied with.	Must act in accordance with the provisions of the Government Procurement Guidelines.	Agree with the observation. Price adjustment system will be used in the future.
(ii) Technical officer had not issued a letter certifying the completion of work in terms of 8.12.2 (a) (b) of the Government Procurement Guidelines and only a brief note was included in the letter of request for payment from the contractor.	Must act in accordance with the provisions of the Government Procurement Guidelines.	Agree with the observation. Actions will be taken to obtain a certified letter from the technical officers in the future.

3. Good Governance

3.1 Internal Audit

Audit Observation	Recommendation	Comments of Accounting Officer
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Although the Accounting Officer of the Department must appoint a suitable Internal Auditor in terms of Sub-section 40(1) of the National Audit Act, No.19 of 2018, an internal audit unit and an internal auditor was	Must act in terms of the Audit Act.	Replies was not received.

not appointed as of the end of the year under review.

4. Human Resources Management

 The following observations are made.

Audit Observation	Recommendation	Comments of Accounting Officer
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(a) The approved number of employees was 157 and due to the actual number of employees being 123, there were 34 vacancies. These vacancies have not been filled and the post of Administrative Officer has been vacant since 2008.	Actions must be taken to fill the vacancies.	A request has been made to the Ministry of Public Administration to make necessary appointments to the vacancies.
(b) 6 officers of the Combined Service have been attached to the Department as of 30 May 2019 with no transfers for a period of 6 to 10 years.	Must act in terms of Combined Service Circular No.03/2017 dated 30 June 2017.	One of the 6 officers has already been transferred.