

Head 303 - Department of Textile Industries

1. Financial Statements

1.1 Audit Opinion

The audit of the financial statements of the Department of Textile Industries for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement 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. The Summary Report containing my comments and observations on the financial statements of the Department of Textile Industries was issued to the Accounting Officer on 17th June 2022 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Department was issued to the Accounting Officer on 06th July 2022 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, the financial statements give a true and fair view of the financial position of the Department of Textile Industries as at 31 December 2021 and its financial performance and cash flow for the year then ended, in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Opinion

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

1.3 Responsibilities of Chief Accounting Officer and the Accounting Officer on Financial Statements

The Accounting Officer is responsible for 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 controls as the Accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per 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 the preparation of annual and periodic financial statements.

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 carried out.

1.4 Auditor's Responsibility on Audit of Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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 and its materiality depends on the influence on economic decisions taken by users 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;

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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 omission, misrepresentations or the override of internal control.
- An understanding of internal controls relevant to the audit, was obtained in order to design 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 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicated to 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

I express the following matters in terms of Section 6(1) (d) of the National Audit Act, No.19 of 2018.

- (a) The financial statements are consistent with the preceding year,
- (b) The recommendations made by me on the financial statements of the preceding year had been implemented.

2. Financial Review

2.1 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.

Reference to Laws, Rules and Regulations	Audit Observation Non-Compliance	Comments of the Accounting Officer	Recommendation
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(a) Paragraph 11.1 of Public Finance Circular No. 01/2020 of 28th August 2020	Though, actions should be taken before 30th April of the next financial year regarding the inventories included in General Form 47 in relation to inventory verification, removal of inventories identified for 2020 & 2021 years has not been done even by the 30th April 2022.	The relevant officers have been instructed to act upon decisions of inventory verifications, in the relevant year itself.	Should act according to the relevant circular.
(b) Assets Management Circular No. 04/2018 dated 31st December 2018.	Even though, accurate information on all non-financial assets of the Institute, should be reported to the Comptroller General, the Department of Textile Industries had reported the information of only six (06) lands & buildings amounting to Rs.227,537,975 and the rest of the 12 nos. land & buildings have not been valued and reported to the Comptroller General's Office.	Actions will be taken to report, the 12 nos. unreported buildings and their lands to the Comptroller General, after their valuations are done.	In terms of the Circular, accurate information of all non-financial assets should be reported to the Comptroller General.

3. Operational Review

3.1 Planning

The following observations were made.

Audit Observation

- (a) Rs. 7 Million had been provided for by the Annual Action Plan for the Project of upgrading the Handloom Weaving Machines of Katubedda Handloom Training School by introducing modern technology, under the supervision of The Department of Government Factory. But the Progress Report for the year ended 31st December 2021 indicates that only one machine was upgraded at a cost of Rs.185,137.
- (b) With the view of developing Handloom Weaving Industries, by strengthening the rural economies, it had been planned to train One hundred fifty (150) candidates to establish ten (10) Handloom Weaving Villages and to provide them with necessary equipment after the training. In spite of that, seventy-three (73) candidates from five (05) villages had been trained during the year under the review, and the hand loom machines and accessories amounting to Rs. 24,676,250, purchased during the year under review, have been retained in the stores complex by the 30th day of April 2022.

Comments of the Accounting Officer

Though, it was expected under this upgrading project, to introduce and launch automatic warping sets, electronic winding machines, the newly innovated machinery by The IDB, to the industries, the process of coordinating with relevant institutions & resource persons, has been delayed and dragged due to frequent Covid-19 lockdowns and other crises prevailed in the country.

Even though, 10 Projects had been planned to commence, due to the third wave of the Covid Pandemic, all expected Projects could not be commenced and a limited no. of participants had to be employed in training. Upon the completion of the projects started in 2020, the said equipment will be distributed among the projects and the remainder of handloom machines will be distributed among ongoing projects without purchasing again.

Recommendation

Projects should be implemented according to the Annual Action Plan.

The Projects, which have been designed to develop the Handloom Weaving Industries by strengthening the rural economy, should be implemented as planned.

(c) Making the Sri Lankan work force a skilled and qualified force and employ them fully in order to increase the contribution towards Gross Domestic Product, is the responsibility of the Department towards the nation. But upgrading the 06 Months Basic Training Course, Final Certificate Course in Handloom and Higher Design Course in Handloom Industries conducted at Textile Industries Training Institutions, up to the professionally recognized NVQ Level 4, had not been done during the period under review.

There is an ongoing process of setting professional standards and recognition to the training offered relating to the Handloom Industries. Students from annual intakes, are constantly monitored & evaluated until they achieve final qualifications.

The courses conducted by the Institutions, should be upgraded to the professionally recognized NVQ Level 4.

3.2 Management Deficiencies

The following observations were made.

Audit Observation

(a) Four Plants (04) out of Department owned Power Loom Plants, which have been rented out to third parties, have breached Rent Agreements, by defaulting the rent payable to The Department, for periods ranging from three (03) to twenty two (22) years. The total Rent Receivable as at 31st December of the year under review, had been Rs. 13,868,250. One of these tenants has mortgaged the property to obtain a loan and also has defaulted a rent value of Rs.8,910,000. A sum of Rs.2,756,000 to be received as rent from another leased property and at the moment, the property is occupied by an unauthorized

Comments of the Accounting Officer

Letters have been sent to the Attorney General's Department seeking legal advices in recovering arrears rent and waiting for their reply to act upon it.

Recommendation

Progress should be reviewed of activities relating to recovering of arrears rent.

person. A sum of Rs.521,000, receivable as rent from one institute, has not been referred to an arbitration process. Therefore, immediate actions relating to recovery of these arrears rent had not been taken.

- (b) The titles of three (03) lands, which consist of five (05) buildings, which are used as Textile Industries Training Institutes of the Department, have not been cleared and though, requests have been made to relevant Divisional Secretariats and District Land Reform Commissions, regarding the clearing of this, no further actions have been taken.

Actions have been taken to inform the relevant bodies about clearing the titles of the properties identified in the Audit observation and in the future, the Auditors will be informed of the results, once the replies are received.

The title of lands should be cleared prior to commencement of building construction.

- (c) The Natural Colouring Centre situated in Rajagiriya, in a title unclear land in extent of 30 perches, which consisted of two (02) buildings and a guardroom, has been temporarily handed over to a government institution since January 2021, to be used as a Covid Treatment Centre, due to lack of sufficient number of students for conducting Courses. However, this building has not been used for the said purpose now and actions have not been taken to take it back, and to use it effectively.

As there were not sufficient students for conducting courses, at the request made by Police Station – Welikada, the property was temporarily handed over, to be used as a Quarantine Centre during the Covid-19 Pandemic.

This property has to be taken over as it is not used for the purpose at present and to be used in an effective manner.

4. Achievement of Sustainable Development Goals

The following observations were made.

Audit Observation

Comments of the Accounting Officer

Recommendation

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| <p>(a) The delays occurred in the execution of development projects identified by The Department, have adversely affected the effectiveness of Sustainable Development Goals. And also, when evaluating the progress of accomplishing such objectives, a base year and base figures have not been clearly established for making comparisons with the actual achievements. The Progress Report for the year under review, indicated a progress level between 0% - 49%, the accuracy of which could not be verified due to absence of base figures.</p> | <p>Most of the Projects planned, were not implemented due to Covid Pandemic. Therefore, percentage level of the annual progress was determined with the number of projects executed during the year 2021.</p> | <p>Projects are to be implemented without undue delays. A base year and base figures have to be established for the purpose of evaluating progress level of achievement of Sustainable Development Goals.</p> |
| <p>(b) The Department had not appointed two (02) senior officers as coordinators for achieving Sustainable Development Goals at organizational, provincial & national levels, through a National Level Strategic Management Plan, as instructed by Circular No. MSDW/08/65 dated 27th April 2018, issued by The Ministry of Sustainable Development & Wild Life</p> | <p>Nominations for these appointments will be made in due course.</p> | <p>Should be complied with regulations of the Circular.</p> |

5. Good Governance

5.1 Renderings of Services to the public

Audit Observation

As per the Public Administration Circulars No. 05/2008 and 05/2008(i) Dated 06th February 2008, A Citizens'/Clients' Charter should be developed and implemented but the Department had not developed a system to implement the Charter and to review its progress, during the year under review.

Comments of the Accounting Officer

As a result of Covid-19 Pandemic, preparation of Citizens'/Clients' Charter could not be finalized as expected. However, actions are being taken by now, to finalize the same as early as possible.

Recommendation

In terms of the regulations of the Circular, the Department should develop a system.

5.2 Internal audit

Audit Observation

As per the Section 40(1) of National Audit Act No. 19 of 2018, The Accounting Officer should appoint an Internal Auditor. If not, as per Section 40(2) of the same Act, the Internal Auditor should be appointed within two (02) years from the effective date of the National Audit Act No. 19 of 2018. However the position of Internal Auditor had not yet been filled even in the year under the Audit review and as a result The Audit & Management Committee Meetings had not been held.

Comments of the Accounting Officer

Requests have been made from The ministry of Public Administration, Home Affairs, Provincial Councils & Local Governments to provide a suitable officer for the position and until such time, another request have been made to the Secretary to the State Ministry, to release an acting officer to cover the duties expected from the post.

Recommendation

An Internal Auditor should be appointed in terms of Section 40(1) of the National Audit Act No. 19 of 2018.