

## **Head 303 - Department of Textile Industries**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Head 303- Department of Textile Industries for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 including my comments and observations on the financial statements of the Department of Textile Industries was issued to the Accounting Officer on 30 May 2023 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 14 July 2023 in terms of Section 11 (2) of the Audit Act. This report will be presented in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with 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 Industries as at 31 December 2022 and its financial performance and cash flow for the year then ended, in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

My opinion is qualified based on the matters described in Paragraph 1.6 of this report. 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 the 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 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 systems 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 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 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**

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.

## 1.6 Comments on Financial Statements

### 1.6.1 Accounting Deficiencies

#### (a) Non-revenue Receipts

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
Revenue collected for other Revenue Heads had been understated by Rs.1,740,746 and the recovery of advances had been overstated by Rs.109,670 in the cash flow statement, thus observing an under computation of the cash flow arising from operating activities, by Rs.1,631,076.	Cash flow statement was rectified by rectifying the revenue collected for other Revenue Heads and the recovery of advances.	Cash flows should be indicated in the cash flow statement accurately.

#### (b) Recurrent Expenditure

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
In terms of Financial Regulation 208, expenditure on personal emoluments and operations, subsidies and transfers and expenses for other Expenditure Heads incurred by other Ministries and Departments had been overstated by Rs.242,430, Rs.143,679,980 and Rs.357,650 respectively in the cash flow statement, thus observing an overstatement by Rs.144,280,060 in the cash flow incurred for operating activities.	Cash flow statement was rectified by rectifying the expenditure on personal emoluments and operations, subsidies and transfers and expenses incurred for other Expenditure Heads.	Cash flow statement should be indicated accurately.

#### (c) Capital Expenditure

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
In terms of Financial Regulation 208, a sum of Rs.1,975,930 spent by other ministries and departments had been included under constructions or purchases of physical assets or acquisition of other investments in the	It has been recorded in the cash flow statement by mistake and the cash flow statement was rectified.	Cash flow statement should be indicated accurately.

cash flow statement, thus the total cash flow incurred for investing activities had been overstated by Rs. 1,975,930.

**(d) Property Plant and Equipment**

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>In terms of paragraph 8.2 of the State Account Guidelines No.2022/05 dated 13 December 2022, in case of non-financial assets to be reported further, those should be recognized and reported to the cost or in case of failure in identifying the cost, it should be reported to the assessed value. However, values of lands and a vehicle belonging to 09 textile training schools, 08 factories and 02 circuit bungalows owned by the Department had not been brought to account even by 31 December 2022.</p>	<p>Valuation reports on lands have not been received so far and as such, it has been directed to appoint a committee for valuation. As the van of Toyota model bearing No.51-5959 had been parked in the garage for repairs for a long period of the year 2022, valuation reports could not be obtained.</p>	<p>Action should be taken to account the non-financial assets according to relevant circulars and guidelines.</p>

**(e) Lack of Evidence for Audit**

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>Legal documents had not been made available to confirm the ownership of 14 textile training schools and two circuit bungalows which were indicated as department owned buildings.</p>	<p>Attention has been paid to expedite the activities on confirmation of ownership of lands which are utilized by this Department.</p>	<p>Action should be taken to confirm the ownership of lands and buildings which are made use of.</p>

**2. Financial Review**

**2.1 Revenue Management**

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) Land and the building owned by the Thalalla Power Loom Factory had been leased out to a private</p>	<p>The lease agreement has been terminated on 02 September 2019 in</p>	<p>Action should be taken to recover the outstanding lease</p>

company for a period of 30 years since the year 2010. However, payment of lease rental had been evaded since the year 2016. The outstanding balance of lease rental of Rs.8,910,000 from 2016 to 2019 had not been recovered even by 31 December 2022. Even though, the said land with the building was possessed by the lessee, action had not been taken to handover even up to the date of audit.

consultation with the Attorney General's Department and documents necessary for initiating legal proceedings on the recovery of outstanding lease rental have been forwarded to the Attorney General's Department on 30 January 2020. Moreover, Land Commissioner General as well has been consulted on 08 August 2022.

rental.

- (b) Yatinuwara Power Loom Factory had been leased out to a private institution for a period of 30 years since the year 2000. Payment of lease rental amounting to Rs.2,756,000 payable from the year 2000 up to the year 2012 had been evaded by the lessee due to failure in granting the clear title of the leased property owing to an unauthorized occupant residing therein. However, action had not been taken even by the date of audit to recover the said lease rental and to transfer the clear title of the land to the Divisional Secretary by evicting unauthorized occupants.

As per the instructions of the Attorney General, it has been notified on 22 July 2018 to forward the matter on eviction of unauthorized occupants, to the Divisional Secretary and the lessee had made a request in April 2023 to settle the outstanding lease rental in installments.

Action should be taken to recover the outstanding lease rental and to transfer the clear title of the land to the Divisional Secretary by evicting unauthorized occupants.

- (c) Bibile Nimhala Institution had been leased out to a Managing Director of a private company for a period of 30 years since the year 1996. In terms of the final arbitration decision dated 27 September 2022 relating to the outstanding lease rental recoverable from the said company, it has been directed to pay a sum of Rs.1,681,250 and the interest thereon. Nevertheless, the lessee had evaded the said payments.

Action had not been taken as per the order given at the Arbitration, thus the documents necessary for initiating legal proceedings, have been forwarded to the Attorney General's Department on 05 December 2022.

Action should be taken to recover the outstanding lease rental by initiating legal proceedings further.

## 2.2 Issuance and Settlement of Advances

### **Audit Observation**

Action had not been taken in terms of Section 4.5 of Chapter XXIV of the Establishments Code regarding the loan balance of Rs.177,805 recoverable from two retired officers for a period between two and three years.

### **Comments of the Accounting Officer**

Shortcomings in information relating to the preparation of pensions have been rectified and forwarded to the Department of Pensions and action will be taken to settle loan balances with immediate effect after the settlement of those loan balances.

### **Recommendation**

Action should be taken to settle the loan balance.

## 3. Operating Review

### 3.1 Non-performance of Functions

The following observations are made.

### **Audit Observation**

Out of handloom machines and accessories purchased in the years 2021 and 2022 for the Handloom Textile Village Project implemented with the objective of creating rural entrepreneurs by popularizing handloom textile industry at the rural level, 220 sets of handloom machines and 195 sets of winding machines valued at Rs.23,960,750 had remained idle even by the date of the report.

### **Comments of the Accounting Officer**

Number of handloom machines required, had been forecasted and procured considering the number of projects included in the Action Plan. However, after about 06 months of commencement of the handloom projects, number of trainees had not completed the training as expected by the beginning, thus observing an excess of handloom machines.

The said sets of machines could be provided to project beneficiaries properly in future.

### **Recommendation**

Action should be taken to provide these sets of handloom machines remained idle, among project beneficiaries and in future purchasing, it should be forecasted accurately and purchased considering the number of projects.

### 3.2 Failure in obtaining expected output

Even though a sum of Rs.3.835 million had been spent for the administration of 14 textile training schools of the year under review, the following observations are made on the progress of courses conducted for training the workers with the objective of improvement of the Handloom Textile Industry.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) Six-month course of the Department of Textile Industries had been conducted only in Matara and Katubedda Textile Training Schools in the years 2021 and 2022 and only 2 and 4 students had completed the course respectively.	As per the request of the candidates, the six-month course is conducted by the Department and accordingly, this course was conducted in Matara and Katubedda Training Schools from where requests were made. Students from Nallur, Matara, Kottala and Katubedda, who participated in the textile training at the beginning, had dropped out of the course halfway due to reasons such as finding other jobs due to economic crisis arisen in the country and increasing the cost of living including transport expenditure.	Proper action should be taken to enhance the participation of students in these courses in relation to amount spent for training activities of the textile industry.
(b) Even though 147 and 87 students had completed the final Certificate Course in the preceding year and the year under review respectively, participation of students in courses had decreased by 40 per cent as compared with the preceding year.		
(c) The number of students who had completed the course in 4 textile training schools of the year under review stood at a very low level ranging from 1 to 4.		
(d) Out of 13 textile training schools of which the accommodation capacity is 119 students, only 58 students have been provided with hostel facilities in the year under review. As such, 52 per cent of hostel facilities that could be provided, had not been utilized.		

### 3.3 Management of Assets

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) The natural dyeing centre of 30 perches in extent located at Rajagiriya with a guardroom and two buildings, but not identified specifically, had remained over a period of 2 years without being utilized.	It had been informed to hand over the said land to the Divisional Secretary of the Sri Jayawardenepura Kotte.	As these buildings are not used for the relevant purpose at present, action should be taken to utilize those buildings effectively.
(b) The quantity of the stock of yarn physically existed as at 31 December 2022, was 6,798kg. However, it was observed that the said stock had exceeded the stock of yarn required for textile schools. Nevertheless, an arrangement had not been made to utilize the excess stocks effectively.	The officer in Charge of the subject has been informed not to make repurchase of stocks of yarn, until the stocks of yarn remained in the stores are completely used for textile schools.	An arrangement should be made to utilize the stocks in excess effectively.

## 4. Good Governance

### 4.1 Internal Audit

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
Even though a post of Internal Auditor had been approved, vacancies had not been filled.	Requests for an officer for the post of Internal Auditor have been made and further, requests for a suitable officer as the acting of the said post until then, have been made from the Secretary to the Ministry of Industries.	An Internal Auditor should be appointed as per Section 40(1) of the National Audit Act, No.19 of 2018.



## 4.2 Audit and Management Committee

### **Audit Observation**

Department Audit and Management Committee meetings had not been held for the year under review.

### **Comments of the Accounting Officer**

Department Audit and Management Committee meetings could not be held due to lack of an Internal Audit Officer, Covid 19 pandemic and the economic crisis prevailed in the country. However, one ministry committee meeting had been held on 24 August 2022 and matters relating to the Department have been discussed.

### **Recommendation**

Action should be taken to hold Audit and Management Committee meetings duly.