

Sri Lanka Institute of Textile and Apparel - 2022

1. Financial Statements

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 2022 comprising the statement of financial position as at 31 December 2022 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 Finance Act, No. 38 of 1971. My comments and observations which I consider should be presented 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 financial statements give a true and fair view of the financial position of the Institute as at 31 December 2022 and its financial performance and 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 Institute 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 of the Institute.

1.4 Auditor's Responsibility for the Audit of 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 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:

- 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 omissions, misrepresentations, or the override of internal control.
- An understanding of internal control 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 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 the Institute to cease to continue as a going concern.
- 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

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 Institute, 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 Institute has performed according to its powers, functions and duties, and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Internal Control over the preparation of Financial Statements

The Institute is 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

Non-compliance with reference to the relevant Standard	Comments of the Management	Recommendation
(a) Assets shall be classified as non-current assets when it does not satisfy any of the criteria specified in paragraph 76 of Sri Lanka Public Sector Accounting Standard 01. Nevertheless, work-in-progress in capital nature valued at Rs.71,145,429 had been indicated as advances under current assets.	That the relevant rectifications pointed out by the Audit will be made in terms of paragraph 76 of Sri Lanka Public Sector Accounting Standard 01.	Sri Lanka Public Sector Accounting Standards should be followed.
(b) According to paragraph 8 of Sri Lanka Public Sector Accounting Standard 02, the interest on Call Deposits credited to the Funds Management Account in cash, was Rs.37,415,413. Nevertheless,	It was recorded to re-examine the annual interest income and rectify the revisions pointed out by the Audit.	Only the payments and receipts made in cash should be included in the cash flow statement.

it had been overstated as Rs.43,648,601 by Rs.6,233,188 in the cash flow statement.

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| (i) | As per paragraph 49 of Sri Lanka Public Sector Accounting Standard 07, when an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued. However, only 7 of 10 vehicles belonging to the Institute had been revalued. | That as those vehicles have been carried away for repairs to a private firm, revaluation thereof could not be made. | Sri Lanka Public Sector Accounting Standards should be followed. |
| (ii) | Property, plant and equipment costing Rs. 221,618,704 which had been fully depreciated as at the end of the year under review, were still in use. Nevertheless, no disclosures thereon had been made in the financial statements. Moreover, action had not been taken in terms of SLPSAS 03 to review the useful life of the said assets and adjust in the financial statements. | That it was recorded to rectify the shortcomings pointed out as per paragraph 92 (b) of Sri Lanka Public Sector Accounting Standard 07. | -Do- |
| (iii) | In terms of paragraph 73, the cost of the road which was developed at a cost of Rs. 3,787,086 had been added to the cost of the land by the Institute. However, it had not been depreciated. | That it will be rectified in the preparation of financial statements of the year 2023. | -Do- |
| (d) | In terms of paragraph 19 of Sri Lanka Public Sector Accounting Standard 10, the course fees charged for training courses commenced during the year and implemented up to ensuing | That action will be taken to rectify as per Sri Lanka Public Sector Accounting Standards. | -Do- |

accounting years, should be recognized separately relating to each year. However, the total income of Rs.3,268,170 charged for a course had been recognized as an income of the year under review, thus overstating the income by Rs.3,032,170.

- (e) Even though recognition and measurement of revenue from non-exchanged transactions should be made in terms of paragraphs from 44 to 49 of Sri Lanka Public Sector Accounting Standard 11, action had not been taken accordingly in respect of capital grants amounting to Rs.40 million received by the Institute during the year under review.

That action will be taken in terms of Sri Lanka Public Sector Accounting Standard 11.

Sri Lanka Public Sector Accounting Standards should be followed.

1.6 Receivables

Non-compliance with reference to the relevant Standard	Comments of the Management	Recommendation
<p>The balance receivable from conducting training courses as at the end of the year under review amounted to Rs. 10,601,534. Out of that, Rs.2,643,995 and Rs.3,007,812 were the loan balances remained over a period between 1 and 3 years and over 3 years respectively. Adequate action had not been taken to recover the said loan balances and the loan balance had gradually increased during 3 preceding years. A unreconciliation of Rs.642,210 was observed between the balance receivable from trainings according to the financial statements and the list of individual balances.</p>	<p>Comments had not been made.</p>	<p>Action should be taken to recover fees receivable from training courses.</p>

1.7 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommend ation
(a)	Public Finance Circulars No. 01/2020 dated 28 August 2020 and No.01/2020(ii) dated 20 December 2022	All public institutions by which charges for supply of service have not been increased during the period from the year 2020 to the year 2022, should take action to revise the charges in terms of circulars. However, course fees relating to 39 and 17 courses had not been revised after the years 2019 and 2017 respectively.	Course fees have been increased ranging from 4 per cent to 30 per cent in the years 2017 and 2019 based on the demand of the client, charges of other competitive institutions and the scope of the course. Moreover, action has been taken to increase the charges for laboratory tests.	Circular provisions should be adhered to and if not, Treasury approval should be obtained.
(b)	Paragraph 3.2 (i) of the Operational Manual for Good Governance issued in line with the Public Enterprises Circular No.01/2021 dated 16 November 2021	All allowances paid to workers should be forwarded for the approval of the Department of Management Services after obtaining the approval of the Board of Directors and the recommendation of the Line Ministry. Nevertheless, a sum of Rs.12,730,369 had been paid during the year under review for laboratory tests allowance, course coordinating allowance, staff allowance for weekend courses and for consultancy allowance.	That the approval of the Department of Management Services has been sought.	Approval of the Department of Management Services should be obtained for all allowances paid to workers.
(c)	Financial Regulation 756 revised by paragraph 11 of the Public Finance	Assets, inventories and inventoried goods relating to the year under review should be verified annually and reports	Reports on annual survey have been completed and forwarded for the approval of the	Survey activities should be carried out duly.

	Circular No.1/2020 dated 28 August 2020	thereon be submitted to the Auditor General before 31 March 2023. Nevertheless, it had not been so done even by 15 May 2023.	Governing Board.	
(d)	Paragraphs 06 and 10 of the Assets Management Circular No.01/2017 dated 28 June 2017	Every Government institution should submit accurate information on its all non-financial assets to the Comptroller General's Office. However, information on infrastructure facilities, machinery and equipment valued at Rs.471,325,349 as at 31 December of the year under review, had not been reported.	That the information on non-financial assets – lands and buildings relating to the year 2022 had been submitted to the Comptroller General's Office.	Accurate information on all non-financial assets should be submitted to the Comptroller General's Office.
(e)	Paragraph 2(b) of Assets Management Circulars No.04/2022 dated 25 January 2022 and No.05/2020 dated 02 October 2020	Repair of vehicles which were identified as repair of such vehicles being economical, should be expedited. However, action had not been taken even by the date of audit to repair 03 vehicles belonging to the Institute and remained idle over a period of 2 years.	Quotations have been obtained and forwarded to the Technical Evaluation Committee and to the Engineer. Moreover, it will be expected to repair these 03 vehicles within the period of 02 ensuing months.	Repair of vehicles identified as repair of such vehicles being economical, should be expedited.
(f)	Guideline 5.4.8 (b) of the Procurement Guidelines 2006 and Section 52.1 of the contract entered into.	The performance security obtained from a recognized institution should be valid until 28 days of termination of the contract of improvement, modification and upgrading of classrooms. However, contrary to that, in extending the contract period, the bank had refused to issue the performance security. As such, a sum of Rs.2,736,962 equivalent to the value of security	As the said institution and the bank refused to extend the value of the performance security, the sum of Rs.2,736,962 which is the value thereof, had been obtained in cash and deposited until the contract is completed. The value of the performance security will be revised after adjusting the price variance.	Action should be taken as per the Procurement Guidelines and the contract entered into.

which existed, had been obtained in cash.

1.8 Cash Management

Audit Observation	Comments of the Management	Recommendation
<p>As no interest is received for the cash balance remaining in the current account of the Institute, operations of transferring the balance cash to a Funds Management Account maintained in that bank itself, leaving Rs.1 million in the account, had been commenced from 11 January 2022. Accordingly, the average cash balance remained in the said Funds Management Account in each month, was between Rs.5 million and Rs.10 million in 6 instances and between Rs.10 million and Rs.25 million in 6 instances. Moreover, a sum of Rs.711,762 had been received in the year under review for retaining money in the said account. Nevertheless, it was observed that had the said money been invested in call deposits, it could have been put to more effective use.</p>	<p>A prompt decision will be taken in regard to maintaining this account once the Funds Management Account is reviewed again and a detailed report thereon is submitted to the governing board.</p>	<p>Money should be effectively made use of.</p>

2. Financial Review

2.1 Financial Results

The operations of the year under review resulted in a surplus of Rs.65,891,654 as compared with the corresponding surplus of Rs.37,439,379 of the preceding year, thus observing an improvement of Rs.28,452.275 in the financial result. The increase in investment interest had mainly attributed to this improvement.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>Sixty five Diploma and certificate courses conducted by the Institute have been registered in the Tertiary and Vocational Education Commission (TVEC) and the</p>	<p>National Competency Standards (NCS) of TVEC have been prepared for most employment opportunities of low level in the textile and</p>	<p>Necessary arrangements for achieving quality and high recognition of courses, should be</p>

National Vocational Qualification (NVQ) could be obtained in the previous years for 05 certificate courses of them. Even though it was applied for obtaining NVQ qualification for 10 courses during the year under review, they had not been awarded mentioning that they are not ready for accreditation.

apparel industry. As the courses conducted by the Sri Lanka Institute of Textile and Apparel (SLITA) are up-to-date, a considerable period is required to adjust the courses to the Standards of TVEC.

expedited.

3.2 Transactions of Contentious Nature

Audit Observation	Comments of the Management	Recommendation
<p>As per Section 04(a) of the Sri Lanka Institute of Textile and Apparel Act, No.12 of 2009, conducting postgraduate and degree programmes has been mentioned as objectives of establishment of the Institute. However, as per Section 05 of the Act, despite vesting with powers for only conducting postgraduate and degree programmes by entering into agreements with local and foreign universities for achievement of the said objective within the powers, functions and duties of the Institute, an expenditure of Rs.762,115 had been incurred in the year under review for achieving independent degree awarding status to the Institute.</p>	<p>As per the Sri Lanka Institute of Textile and Apparel Act, postgraduate programmes could be conducted by entering into Memoranda of Understanding with other universities and institutions and according to powers of the Act, degree courses could be conducted. (Section 05 of the Act) As other matters should be fulfilled before awarding degrees, those activities are being carried out presently with the Ministry of Higher Education. That it is the objective of the Institute to become a degree awarding institution.</p>	<p>Should be in accordance with the objectives of establishment of the Institute, its powers, functions and duties.</p>

3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
<p>A HTHPS dyeing machine had been purchased by the Institute for Rs.11,962,335 in the year 2019 with the intention of producing yarn using the banana stem under the Banana Yarn Project. However, the said machine remains idle as that activity was not</p>	<p>Lack of a trained operator for operating the machine.</p>	<p>Assets should be utilized effectively.</p>

successful as expected. Moreover, it was observed that trained operator as well was not available

4. Accountability and Good Governance
4.1 Annual Report

Audit Observation	Comments of the Management	Recommendation
<p>In terms of Public Enterprises Circular No. PED/12 of 02 June 2003, annual performance reports should be tabled in Parliament within 150 days after the closure of the financial year. However, performance reports relating to the years 2020 and 2021 had not been tabled in Parliament even by 31 May 2023.</p>	<p>Only the performance report relating to the year 2019 has been tabled in Parliament.</p>	<p>Annual performance reports should be tabled in Parliament within 150 days after the closure of the financial year.</p>

4.2 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
<p>The Annual Action Plan had not been prepared as per the Annexure 01 under Section 2.3 of Chapter 2 of the Guidelines for Good Governance issued in line with the Public Enterprises Circular No.01/2021 dated 16 November 2021.</p>	<p>That it had been prepared only for obtaining the income.</p>	<p>An Annual Action Plan should be prepared indicating periods for achieving objectives.</p>