

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Institute of Textiles and Apparel for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and 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 material accounting policy information 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 provisions of the Finance Act No. 38 of 1971. My comments and observations which I consider should be reported 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 2023, 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 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 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 determines 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 for accounting unless management either intends 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 sub Section 16(1) of 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 judgement 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 Company'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 Company'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 Company 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 to enable a continuous evaluation of the activities of the company, 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 discussions issued by the governing body of the company
- 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 the financial statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to the relevant standard	Comment of the Management	Recommendation
<p>(a) It was observed that the action had been taken on contrary to 24 and 27 paragraphs of Sri Lanka Public Sector Accounting Standards No. 03 in the following incidents.</p> <ul style="list-style-type: none"> • A special project receipt of Rs. 12,413,670 which had not been shown in the statement of financial performance in the preceding year had been stated as income. • Even though Rs. 89,948,884 had to be adjusted to the accumulated surplus as the surplus in 2022, it had been adjusted as Rs.65,891,654. • Even though the capital grant of Rs. 34,000,000 received in the preceding year had been adjusted to the accounts as income, no action was taken to remove from the net equity. 	<p>The action will be taken to rectify.</p>	<p>The action should be taken in compliance with Sri Lanka Public Sector Accounting Standards.</p>

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| (b) | In terms of the paragraph 92(b) of Sri Lanka Public Sector Accounting Standards 07, even though the gross carrying amount of the property, plants and equipment which are still being used but completely depreciated should be disclosed in the financial statements, the property, plants and equipment of Rs. 271,211,449 which are still being used but completely depreciated had not been disclosed in the financial statements. | The action will be taken to rectify | -Do- |
| (c) | Since the course income of Rs. 7,904,870 which is carried forward for the next year but received in the year on the contrary to paragraph 19 of Sri Lanka Public Sector Accounting Standard 10 had been totally treated as the income in the year, an income of Rs.6, 650,070 in the year under review had been overstated in the financial statements. | The action will be taken to rectify. | The action should be taken in compliance with the Sri Lanka Public Sector Accounting Standards. |
| (d) | A receivable balance of Rs. 11,480,080 for a project on contrary to paragraph 48 of Sri Lanka Public Sector Accounting Standards 1 had been set-off from the balance payable and it had been stated as a balance payable for the projects. | On the approval of the Secretary of the Ministry of Industries, since the approval had been granted to incur the expenses for 25 Batik training centres in 2022 from the balance remained in 2021, said amount had been set-off for the credit balances of the projects. | -Do- |

1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Even though the cost for the road developed in 2022 and 2023 and the wall constructed which were Rs. 3,787,086 and Rs.4, 280,489 respectively had been added to the cost of the land, it had not been depreciated.	The action will be taken to rectify it.	The depreciation should be accurately accounted.
(b) The aggregate expense of Rs. 382,187 as Rs. 184,380 paid for the newspaper advertisements and Rs. 197,807 paid for the renovation of the buildings had been capitalized to the buildings account.	It had been capitalized since the expense had been incurred for the acquisition of the assets and the life time had been extended by the modernization of the buildings.	It should be accurately accounted.
(c) Under phase iv of the class rooms Improvement Project, the cost of Rs. 2,732,536 for interlock paving had been capitalized under the land and the relevant depreciation had not been accounted.	Since this cost had been added to the value of the land, it couldn't be depreciated.	It should be accurately accounted.
(d) As an invoice of Rs. 495,000 issued for a course not started had been identified as an income in the year, the income and debtor balances had been overstated from such amounts.	The other course had been commenced in 2024 for that value.	The income in relation to the year should be accurately identified.
(e) An accrued provision had not been made for employee bonus allowance of Rs. 1,824,583 paid in 2024 in relation to the year under review and the bonus allowance of Rs. 2,101,042 paid related to the preceding year had been identified as an expense.	It will be rectified the deficiencies pointed out.	The expenses in relation to the year should be accurately accounted.

(f) The action had not been taken to accurately identify Rs. 1,145,101 of advances received in 2021 and the preceding years before that for the courses and it had been shown in the financial statements as trade creditors.	The course fee paid by the students in advance is stated in this account and the balance of this account is settled by crediting the relevant fee to the specified course after commencement of the course.	The action should be immediately taken to settle it.
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1.6 Money Receivable

Audit Observation	Comment of the Management	Recommendation
A balance of Rs. 6,524,257 which had not been recovered since more than 3 years and a balance of Rs. 1,577,681 which had not been recovered since 01-03 years had been prevailed in the trade balance receivable of Rs. 11,323,009 as at 31 December 2023 and no action was taken to recover those loan balances.	It had been forwarded to the meeting of Audit Management Committee and the action will be taken in due course accordingly.	The action should be taken to expeditiously recover it.

1.7 Non-compliance to the laws, rules, regulations and management decisions

Reference to laws, rules and regulations	Non-compliance	Comment of the Management	Recommendation
(a) Financial Regulations of Democratic Socialist Republic of Sri Lanka	The cheques not presented to the bank worth of Rs. 299,508 issued on that date and time frame from 06 months to 04 years in accordance with the bank reconciliation statement prepared on 31 December 2023.	The necessary steps should be taken in due course.	The actions should be taken in terms of the regulations.
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(b) Section 08 of General Contract Agreement Act No. 03 of 1987	Even though a general contract certificate should be submitted in forwarding the procurement documents for every contract more than Rs.05 million, no action had been taken in relation to 04 procurements worth of Rs. 72,001,840 contract value in the year under review.	The necessary action had been taken to include the documents and register the future contracts.	The action should be taken in terms of the Act.
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2. Financial Review

2.1 Financial Results

The operating result in the year under review was a surplus of Rs. 219,994,455 and correspondingly, the surplus was Rs. 89,948,884 in the preceding year. Accordingly, it was observed a growth of Rs. 130,045,571 in the financial result. The increase of receipt of capital grants by Rs. 166,000,000 had mainly caused for this growth.

3. Financial Review

3.1 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Even though 65 diplomas and certificate courses had been registered in Tertiary and Vocational Education Commission (TVEC) since 2010, the National Vocational Qualification (NVQ) could be obtained for only 05 courses.	The National Competency Standards (NCS) are being prepared presently for other courses with TVEC and the action will be taken to obtain NVQ once it will be finished.	The necessary measures should be taken to achieve the quality and higher recognition of the courses.
(b) Even though an expense of Rs. 3,762, 600 incurred for preparation of the plans, soil testing and other expenses for the construction of a building in 2019 had been shown as a work in progress, no action was taken to construction or settle the balance.	Having referred to the meeting of Audit and Management Committee, the action will be taken accordingly.	The action should be taken to settled the balance.

(c) The steps had not been taken to settle the remaining balance of Rs. 9,065, 986 out of the money received for implementation of 04 projects in 2019 and 2021 and it had been retained up to the year under review.	The action will be taken to rectify.	The measures should be taken to promptly settle it.
(d) Since 04 diploma courses which had been scheduled to conduct in the week days in accordance with the action plan of the year under review had not been held, a training income of Rs. 4,240,000 had lost.	Taking into consideration each course separately, even though such collapse had occurred in the sector, more than 50 percent students had been registered for 08 courses out of 12. It had been implemented these courses with the combination of the other courses in the way of earning profits to the institute in conducting the courses.	The action should be taken to conduct the courses as planned.

3.2 Idle or under-utilized property, plants and equipment

Audit Observation	Comment of the Management	Recommendation
Even though a decision had been taken at the meeting of Board of Directors held in February 2023 to commercialize the banana fibre threads using HTHPS Dyeing machine worth of Rs. 11,962,335 purchased in 2019, no manufacturing of banana fibre threads had been made up to the date of report.	This machine is utilized to colour the threads in relation to the banana fibre research. The action is being taken to obtain a client who can work with the public and private combination to colour the threads commercially.	The machine should be effectively utilized.

4. Accountability and Good Governance

4.1 Tabling Annual Reports to the Parliament

Audit Observation	Comment of the Management	Recommendation
The Annual Report 2022 had not been tabled to the parliament up to 30 June 2024.	The Annual Report 2022 had been submitted to the Ministry on 12 March 2024.	The steps should be taken to table the reports on specified date.