

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Institute of Textiles and Apparel (“Institute”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 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 Finance Act No. 38 of 1971. My comments and observations which I consider should be report 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 accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2024, and of its financial performance and its 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 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 Responsibilities for the Audit of Financial Standards

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 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 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non compliance with the reference to particular Standard	Management Comment	Recommendation
(a) Although, in accordance with paragraph 53 of Sri Lanka Public Sector Accounting Standard No. 01, comparative figures for the previous year should be disclosed for all numerical information presented in the financial statements, the comparative figures had not been disclosed in the Statement of Changes in Equity of the Institute.	The action will be taken to rectify.	Comparative figures should be presented in accordance with the Sri Lanka Public Sector Accounting Standards, when preparing financial statements.
(b) Although the paragraph 69 of Sri Lanka Public Sector Accounting Standard No. 07 states that depreciation should commence when an asset is available for use, the Institute	The action will be taken to rectify.	Depreciation should be calculated in accordance with the Sri Lanka Public Sector Accounting Standards.

had depreciated the assets acquired during the first half of the year for the entire year. Also, assets acquired during the second half of the year were depreciated for the same half year. As a result, the institute had depreciated of Rs.2,098,747 on assets purchased during the year under review amounting to Rs.50,599,840. However, according to the standard, the depreciation should have been Rs.1,113,088. As a result, the expenses had been overstated by Rs.985,658. The surplus for the year under review was also understated by that amount.

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| <p>(c) 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.320,471,847 which are still being used but completely depreciated had not been disclosed in the financial statements.</p> | <p>Necessary arrangements will be made to revalue these assets in due course.</p> | <p>Assets should be accounted for in accordance with Sri Lanka Public Sector Accounting Standards.</p> |
| <p>(d) Although paragraph 14 of Sri Lanka Public Sector Accounting Standard No. 10 states that all receipts or receivables during the period should be recognized as income, only Rs.111,655,111 received in cash during the year</p> | <p>From the year 2025 onwards, training income is recognized on an accrual basis.</p> | <p>Income should be recognized in accordance with Sri Lanka Public Sector Accounting Standards.</p> |

had been accounted for as income.

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| <p>(e) In accordance with paragraph 34 of Sri Lanka Public Sector Accounting Standard 14, payments of remuneration and other benefits to related parties should be disclosed in the financial statements. However, information regarding the institute's top management or no transactions that had taken place with related parties had not been disclosed in the financial statements.</p> | <p>The action will be taken to rectify.</p> | <p>Related party transactions should be disclosed in accordance with the Sri Lanka Public Sector Accounting Standards.</p> |
| <p>(f) In accordance with paragraph 76 of Sri Lanka Public Sector Accounting Standard No. 19, the present value of post-employment benefit obligations and the related service cost for the gratuity allocation of Rs.49,884,222 had not been disclosed in the financial statements.</p> | <p>The action will be taken to rectify.</p> | <p>Post-employment benefits should be accounted for in accordance with Sri Lanka Public Sector Accounting Standards.</p> |

1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) An amount of Rs. 3,762,601 incurred on soil testing conducted on the land where the institution is located during the years 2016, 2017, and 2018 had been accounted for as work in progress instead of being capitalized."	Soil testing costs and other related expenses incurred for the construction of a new building have been accounted for under work in progress. These expenses will be referred to the upcoming Audit and Management Committee meeting for a decision on whether they should be capitalized or written off as an expense, and appropriate action will be taken accordingly.	The balance in the work-in-progress account should be capitalized under the relevant asset account.

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| (b) | The distress loan amounting to Rs.5,250,000 granted to the staff was not disclosed as cash outflow under investing activities in the cash flow statement, and the interest income received from the loan was understated by Rs.630,001. | The action will be taken to rectify. | All cash receipts and payments should be properly included in the cash flow statement. |
| (c) | Although a total of Rs.7,637,272 had been shown as a deduction from current assets under provisions for bad debts, no analysis of those bad debts or no disclosure of the accounting policy relating to the provision for bad debts had been made in the notes to the financial statements. | The action will be taken to rectify. | An analysis of the debts and the accounting policy relating to the provision for bad debts should be disclosed in the notes. |
| (d) | In calculating the investment interest income, the withholding tax amounting to Rs.1,900,525 had been deducted, and only the net interest income was recorded in the accounts. However, the withholding tax expense had not been recognized. | The action will be taken to rectify. | Withholding tax expense should be identified and accounted. |

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Sections 2(1) and 102 of the Inland Revenue Act No. 24 of 2017	The institution had not taken steps to register for income tax or to obtain tax exemption.	Thirty percent of the operating profits is paid to the Treasury. If the institution had to pay income taxes, it may obstruct its operational activities. Appropriate	Actions should be taken to either register for income tax or obtain tax exemption in accordance with the provisions of the

		action will be taken in the future regarding this.	Inland Revenue Act.	
(b)	Section 3.6 of Chapter XXIV of the Establishment Code of the Democratic Socialist Republic of Sri Lanka	Although distress loan installments should be calculated at 10 percent of the monthly salary, the institution, contrary to this requirement, was charging all officers equal monthly loan installments.	The action will be taken to rectify.	Action should be taken to recover the loan in accordance with the Establishments Code.
(c)	Section 371(2)(a) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka as amended by Public Finance Circular No. 01/2020 dated 28th August 2020	Although Sub-Imprest advances were permitted up to a maximum of Rs.100,000 on one occasion, advances totaling Rs.1,328,420 were provided over 06 occasions, exceeding maximum limit.	In the future, steps will be taken to provide staff officers with advance payments not exceeding Rs.100,000 and to issue a cheque for other expenses.	In accordance with the financial regulations, steps should be taken to provide sub-imprest.
(d)	Paragraph 01 of Public Enterprises Circular No. PED/03/20 dated 23 December 2024	Although institutions generated a profit in the financial year of 2023, the institutions those that have not remitted at least 30 percent of the profit to the Consolidated Fund as dividends or levies, are not entitled to pay staff bonus based on profitability. However, contrary to this requirement, the institution had paid Rs.2,141,040 to	An amount of Rs.14,839,950 was remitted to the Treasury for the month of May through Payment Voucher No. 692.	In accordance with the circular, the prescribed remittances from the annual profit should be made to the Treasury, and entitlement for incentives should be obtained.

employees as incentives
and bonuses.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs.16,888,643 and the corresponding surplus in the preceding year amounted to Rs.49,466,500. Therefore a deterioration amounting to Rs.66,355,143 of the financial result was observed. The reasons for this deterioration are mainly due to a decrease in income by Rs.7,700,954, an increase in salary expenses by Rs.25,031,659, and an increase in supplies and consumables, repairs and maintenance and other expenses totaling by Rs.33,617,296.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	The contract was entered into with the insurance company on 19 February 2024, which was after 1½ months from the commencement of the contract period to obtain health insurance coverage for employees for the year 2024 at a cost of Rs.4,739,620. However, Treasury approval had not been obtained for this insurance coverage.	Arrangements were made to obtain insurance service facilities for a period of one year, as they agreed to pay the bills from 01 st January, 2024.	It is mandatory to enter into contracts when obtaining services, and Treasury approval should be obtained for insurance coverage.
(b)	During the year 2024, a total of Rs.2,872,053 was spent on servicing, repairs, tire replacement, and battery installation for 06 vehicles that were unusable by the institution, and this expenditure became a useless expense.	Since the maintenance of these vehicles is not economically viable, approval has been obtained from the Board of Directors for the disposal of 06 vehicles.	Repair costs should not be incurred for vehicles that are not economically viable to repair, and appropriate action should be taken against the individuals responsible for incurring useless expenditures.

3.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
At the Board of Directors meeting held in February 2023, a decision was taken to commercialize banana leaf yarn using the HTHPS Dyeing machine purchased in 2019 at a cost of Rs.11,962,335. However, as of August 2025, the banana leaf yarn had not yet been processed.	This machine is being used for dyeing and training purposes under the supervision of two trained officers. Additionally, this machine will be made available for use by students of the University of Moratuwa.	The relevant asset should be utilized productively for its intended purpose.