

## **Sri Lanka Institute of Textiles and Apparels – 2017**

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The audit of Financial statements of the Sri Lanka Institute of Textiles and Apparels for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of financial performance, cash flow statement and statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 13(1) of the Finance Act, No.38 of 1971 and Section 14(3) of Sri Lanka Institute of Textiles and Apparels Act, No.12 of 2009. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14 (2) (c) of the finance Act appear in this report. A detailed report in terms of Section 13(7) (a) of the Finance Act, No. 38 of 1971 was issued to the Chairman of the Institute on 28 August 2018.

### **1.2 Management’s Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.3 Auditor’s Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000–1810). Those Standards require that, I comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority’s preparation and fair presentation of the financial statements 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 Authority’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub – sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

### **2.1 Qualified Opinion**

In my opinion, except for the effect of the matters described in paragraph 2.2 this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Institute of Textiles and Apparels as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **2.2 Comments on Financial Statements**

#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

##### **(a) Sri Lanka Public Sector Accounting Standards 07**

In terms of section 65 of this standard, the cost of non-current assets had not been revised annually for a life expectancy of fixed assets which amounted to Rs. 201,323,461 had been depreciated but were still in use. Accordingly the estimated error was not revised in accordance with Sri Lanka Accounting Standard 03.

##### **(b) Sri Lanka Public Sector Accounting Standards 02**

The following observations are made. When examining the cash flow statement.

- (i) A sum of Rs. 230,828 of doubtful debts adjusting from the operating income and had not been indicated under debtors.
- (ii) The interest income of Rs. 21,478,709 relating to the year had not been adjusted from the operational activities and interest income of Rs. 15,688,119 received by cash had not been indicated under financial activities.
- (iii) A sum of Rs. 30,000,000 receivable from the Ministry for the construction of the new building had not been indicated as cash inflow under financial activities.

#### **2.2.2 Accounting Deficiencies**

The following observations are made.

- (a) A sum of Rs. 80,400 had been paid for external lecture fees during the year 2017 relevant to the year 2016, had been accounted as an expenditure for the year under review.
- (b) The cost relating to the fixed assets disposed of in the year under review and a sum of Rs.153,950 received from sale of those assets, had not been adjusted to the Account of Removal of Assets. Instead, only the amount received from sale of assets had been erroneously credited to the sundry creditors.
- (c) The profit of selling 05 No. of vehicles amounting to Rs. 3,871,448 had been credited to the Sunday creditors and the actions had not been taken to adjusting that profit from the creditors account even in the year under review.

### 2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The trade debtors balance as at the end of the year under review amounted to Rs.14,353,062 and that balance included the debtors balance of Rs.3,739,162 about 26 per cent exceeding 04 years.
- (b) Even though the Value Added Tax totalling Rs.290,441 brought forward in the accounts of the Textile Training and Services Centre, had been shown as a balance receivable since the establishment of the Institute in the year 2011 up to now, action had not been taken to settle those balances even by the date of this report.

### 2.4 Non-compliance with Laws, Rules, Regulations and management decisions.

The following non-compliance were observed.

<b>Reference to Laws, Rules, Regulations etc.</b> -----	<b>Non-compliance</b> -----
(a) General contract Act No. 03 of 1987 sub terms of No. 8 and procurement guide line No. 13	When selection of suppliers for interior designs of the cafeteria for the value of Rs, 8,024,885 and the procurement of laboratory equipments amounting to Rs. 17,601,850 the actions had not been taken to register the agreements under the Act of General Contracts.
(b) Financial Regulations 371 (5) Public Finance (Revised) circular No.03/2015 dated 14 July 2015	Even though the ad-hoc sub imprests obtained should be settled immediately after the completion of the purpose for which it is granted, the value of ad-hoc sub imprest of Rs. 556,720 granted in 22 instances had been settled delay in 11 days to 34 days.
(c) Financial Regulations 371 (2) (amendment)	Even though the amount of ad-hoc sub imprest up to maximum of Rs. 100,000 exceeding that amount sub imprest had been granted in two instances as Rs. 200,000 and Rs. 283,300

## **2.5 Transactions not Supported by Adequate Authority**

In terms of Public Enterprises Circular No.95 of 14 June 1994, approval of the General Treasury or the Ministry of Public Administration should be obtained for all allowances paid to employees of Corporations, Boards and Statutory Bodies on the approval of the Secretary to the Ministry concerned. Nevertheless, contrary to that, sums totalling Rs.1,574,691 and Rs.1,602,540 had been paid to the staff in the years 2016 and 2017 respectively as additional allowances from the Fund of the Sri Lanka Institute of Textiles and Apparels.

## **3. Financial Review**

### **3.1 Financial Results**

According to the financial statements presented, the financial result of the Institute for the year under review had been a surplus of Rs. 54,535,545 as compared with the corresponding surplus of Rs. 38,418,981 for the preceding year, thus indicating an improvement of Rs. 16,116,564 in the financial result of the year under review as compared with the preceding year. Even though the expenditure of the year under review had increased by Rs. 13,804,478 as compared to preceding year. The increase in the income from interest by Rs.7,666,425 and in the income from trainings by Rs.22,906,953 of the year under review had been the main reason for the above improvement.

An analysis of the financial results of the year under review and preceding four years revealed a financial surplus from the year 2013 to the year 2017. Nevertheless, it had decreased in the year 2015. However, in readjusting the employees remuneration, the Government tax and the depreciation on non-current assets to the financial result, the contribution of the Institute which was Rs. 115,076,875 in the year 2013 had improved to Rs.137,931,510 as at the end of the year 2014. However, it had decreased to Rs.111,088,905 in the year 2015 and further, it had again improved to Rs.142,154,257 in the year 2016 and Rs. 161,410,561 in the year 2017.

### **3.2 Analytical Financial Review**

Even though the current Assets Ratio and Acid Test Ratio should be 2:1 and 1:1 respectively, the current Assets Ratio and Acid Test Ratio of the Institute had been improved by 2:1 in the year 2016 and 19:1 in the year 2017, though it was 2:1 in the year 2015. The major reason for this was the excess funds of the institute had invested on short term deposits amounting to Rs. 154,169,439 at the end of the year, instead of using economically to obtain key functions of the institute.

## **4. Operating Review**

### **4.1 Performance**

#### **4.1.1 Planning**

The following observations are made relevant to this.

- (a) Even though the revised budget should be presented to the secretary of the line Ministry in terms of sub section 5.2.3 of the Public Enterprise Circular No. PED-12 of dated 02 June 2003. The Institute had not done it.

- (b) The Institute had not taken actions to revise action plan in accordance with the revised budget.

#### **4.1.2 Activity and Review**

The following observations are made.

- (a) Even though the participation of 3,182 students for 215 courses had been expected according to the Action Plan for the year 2017, only 201 courses had been conducted by the end of the year with the participation of 3,463 students. Actual courses were less than expected courses by 6.51 per cent and students participated for that was increased by 8.83 per cent. According to that it was observed that when planning courses expected to be conduct and making decisions relevant to the students who expected to be participate. The institute had not been planned properly.
- (b) Even though in the Engineering Section 44 number of courses were expected to be conduct with the participation of 773 students, only 21 courses had been conducted with the participation of 302 students at the end of the year.
- (c) Except the courses which were held for the request of the external persons and institutes, only 19 courses about 13 per cent had been conducted out of 146 courses which was planned to be conducted by the institute during the year under review.
- (d) A provision amounting to Rs. 06 million had provided to the institute by the Line Ministry for Teacher training programme for the purpose of starting 150 small scale industries in the year 2016. Even though amounting to Rs. 1,796,346 in 2016 and amounting to Rs. 4,325,138 totalling of Rs. 6,121,484 had been incurred 15 trainees in Mannar out of 150 to be trained had not been trained even by the end of the year under review.
- (e) Even though it is mentioned that giving consultancy service to get opportunities to enter the market for the production of trainees. As a project proposal of domestic garment factories had been implemented along with the Ministry of Industrial & Commerce for the purpose of enhancing the economic empowerment of the people by creating new employment opportunities, empowering women, social development etc. The information had not been furnished to the audit relating to that activity was implemented. Even though the amounting to Rs. 103,598,120 had been spent for 2040 number of Sawing Machines and 41 Over Lock Machines from the year 2015 to year under review. Follow up actions not been implemented whether these trainees were engaged in the said business and issues they faced.
- (f) Training programmes of the national programme of “Diviyata Udanaya” had transferred to the institute by the Industrial Development Board which is planned to implement under the provisions of the Ministry of Industrial and commercial affairs. But both parties had not been came over an agreement about programme detail, time line, No. of trainees should be trained, charges for the service given regarding the training programme to be implemented.

- (g) Even though the sales income of Rs. 978,535 include in the total operating income of Rs. 202,882,320 shown in the financial statements, in the thread colouring center of “Palamunei” there had been a net loss of Rs. 2,641,544 due to the usage of raw material in the year amounting to Rs. 2,149,636. The main impact of this loss was coloured threads which were ordered by the textile department were not standard quality and therefore those threads had to be coloured again.

#### **4.2 Management Efficiency**

The following observations are made.

- (a) Even though the Efficiency Bar Examination should be held at least once in a year, in terms of 4.4.4 of the section of Junior Managers, in the scheme of Recruitment. The management of the Institute had not been conducted the Efficiency Bar Examinations relating to each post from the date of the scheme of Recruitment approved on 23 March 2015.
- (b) The officer had employed in the post of senior technologist (Leather) had been released since the date of 05 March 2018 for the volunteer service of Sri Lanka Army and five programmes were in progress under the “Exchange of Technology and Quality promotion programme 2017” at the time of that period. Due to the vacancy of that post the practical training of this programmes had been stacked. That section had been closed by the date of audited on 27 April 2018. Training of the trainees who related to foot ware and leather had been broken down due to that reason.
- (c) Even though a sum of Rs. 822,480 had been paid to the Department of Valuation in the year 2015 for revaluation of assets of the Institute, action had not been taken to obtained the accurate revaluation reports on assets and to adjust the fair values there of to accounts of the year under review in terms of the Standard.

#### **4.3 Uneconomic transactions**

The following observations are made.

- (a) It was observed that in the physical verification 22 No. of wooden tables which had bought in the year 2014 at a cost of Rs.1,385,200 for the section of footwear and leather items had been kept as an idle in the practical Training Section without using.
- (b) A building had been purchased monthly rental value of Rs. 80,000 for a office accommodation from the 01 June 2017 because of the part of the old building had to be demolish for the construction of the new building constructions had not been started even by the audit day of 27 April 2018. Therefore the building which rent out had been closed without using. Boarding facilities had been given to a few training students for several days. The agreement date of that rented building had been cancelled from the date of 16 April 2018, amounting to Rs. 800,000 as 10 month value of rental had been paid.

Even if the agreement cancelled it should be noticed to the other party before 03 months in compliance with the section 3(F) of the agreement. It had noticed that the agreement to be cancelled on the date of 09 March 2018 thus before 38 days.

Therefore only Rs. 80,000 had been received on 6 August 2018 out of Rs. 240,000 of advanced paid and had a loss of Rs. 160,000 for the institute.

#### **4.4 Staff Administration**

The following observations are made.

- (a) The approved cadre of the Institute stood at 140 and actual cadre were 98 and 42 vacancies existed. Even though actions had not been taken to fill these posts which have been existing for more than two years by the end of the year under review.
- (b) Institute which consist of 82 officers in senior, secondary and tertiary level even though the approved cadre of work Aids stood at 13, only one work Aide is engaged in the service.
- (c) According to the section 5.3 of the Scheme of Recruitment an officer had been recruited for the post of Assistant Engineer (Information Technology) without calling application through the public notice.

#### **5. Sustainable Development**

##### **5.1 Approaching the Sustainable Development Goals**

In terms of the “vision 2030 Agenda” of United Nations, regarding Sustainable Development Goals, Every Government institute should approach it self, and the institute aware of the way should be implement regarding activities under the scope of the institute for the year under review. But the Institute had not been identified sustainable Development Goals under the scope of the institute.

##### **5.2 Unsettled Audit Para's**

The actions had not been taken to the following observations had stated in the report of the Auditor General's in 2016.

- (a) Even though 08 years had elapsed by the end of the year 2017 since the establishment of the Institute in the year 2009, necessary arrangements had not been made even by 31 December 2017 for conducting Postgraduate and Degree Programmes on Textiles and Apparels Industry in terms of paragraph 04(a) of Part 01 of the Sri Lanka Institute of Textiles and Apparels Act, No.12 of 2009.
- (b) Even though the issuance of Certificates of Conformity to the persons engaged in the Textiles and Apparels Industry conforming to the International and National Standards and the Standard Systems of Companies, is an objective of the Institute, action had not been taken even by the end of the year under review to obtain the National Vocational Qualification Level recognition for other courses except for the Course of “Work Study” conducted by the Institute.
- (c) A Jeep not in running condition, had been obtained from the Ministry of Industries and Commerce in November 2014 on temporary basis and a sum of Rs.362,175 had been spent there for as expenditure on repairs. However, it had not converted to running condition and as such, it had been returned to the Ministry. Moreover, action had not been taken for the recovery of the money spent on repairs from the Ministry of Industries and Commerce.

- (d) Even though the double cab motor vehicle given to the Institute by the General Treasury in the year 2012 had been released on 04 September 2013 for the use of the line Ministry, the Institute had spent a total sum of Rs.910,472 as its repair expenses. But the amount had spent could not be reimbursed from the Ministry by the year under review.

## **6. Accountability and Good Governance**

### **6.1 Procurement and Procedure of Contract**

#### **6.1.1 Procurement**

The following observations are made regarding this.

- (a) Even though the Institute had prepared a Procurement Plan, it had not been prepared in compliance with Guideline 4.2.1(a),(b),(c) and (e) of the Government Procurement Guidelines. Even though the Procuring Entity should prepare a Master Procurement Plan including the procurement activities envisaged at least for a period of three years and the procurement activities for the following year in detail and that the Master Procurement Plan be updated within a period not less than 06 months, the Institute had not prepared the Procurement Plan accordingly.
- (b) All bidder who participate the procedure of invitation for bids, should be presented bid bond in required format incompliance with the Guideline 5.3.11 of the Procurement Guideline for the services of and security service, cleaning services and transport service for staff and the students, had not been kept thus, the procurement entity had not been aware of the bidders.
- (c) In compliance with Guideline 5.4.10 of the Government Procurement Guidelines. Even though the responsibility should be covered not less than 10 per cent by the estimated contract value. The performance bonds had not been taken regarding expenditure amounting to Rs. 3,360,000 cleaning and a sum of Rs. 2,142,000 of security services in 2017/2018.

#### **6.1.2 Deficiencies in Contract Administration**

The following observations are made.

- (a) Bids have been invited under National Competitive bidding procedure on 14 October 2017 for proposed interior designing in the cafeteria of the Institute. Bids were represented by three bidders. Actions had been taken to select a contractor among them. The following observations are made relevant to this.
- (i) Even though the minimum period of time for inviting bids were 21 days in compliance with the section 6.2.2 of the Government Procurement Guideline. Inviting for bids of this procurement had been given only 12 days.
- (ii) Even though the consultants should not be the members of the Technical Evaluation Committee, in compliance with the section 7.3.1 (a) of the Government Procurement Guideline. A consultant appointed for this procurement also being a member of Technical Evaluation Committee.



(iii) Even though the bid security should be extent before the validity date which was conformed, when the required period for the contract finished is extend in compliance with the section 18 supplementary of the Government Procurement Guideline. The validity period of advance bid security amounting to Rs. 1,882,638 by the date of 06 March 2018 and performance bid security amounting to Rs. 802,488 by the date of 07 March 2018 regarding this contract. Even though a mobilization advance of Rs. 1,882,638 had been paid for the contractor on 03 January 2018 on bid security, proposed interior designing in the cafeteria had not been implemented even by the date of 30 June 2018 by the Institute.

(b) A sum of Rs. 23 million had been provided from 2015 to 2017 by the treasury for the construction of a building for the purpose supply of fundamental facilities needed to conduct post Graduate Courses, Graduate Courses and Diploma Courses regarding Textiles and Apparels field. Out of that provisions Rs. 1,586,831, had been incurred, only for the master plan and the samples of soil testing by the 31 May 2018 and the constructions had not been commenced even by 31 July 2018. The remaining amount of Rs. 21,413,619 had been invested in short term deposits.

## **6.2 Budgetary Control**

Variances ranging from 10 per cent to 310 per cent were observed between the budgeted and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

## **7. Systems and Controls**

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Institute from time to time. Special attention is needed in respect of the following areas of control.

	<b><u>Areas of Systems and Controls</u></b>	<b><u>Observations</u></b>
(a)	Debtors	Failure in implementation of a proper procedure for the recovery of balances of debtors.
(b)	Conducting Courses	An Examination Division had not been established for examinations of those courses impartially and regularly.
(c)	Procurement procedures	Action had not been taken in compliance with the Guideline of The Government Procurement Guideline.