

Textile Quota Board - 2010

1. Financial Statements

1.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Textile Quota Board had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1.2 of this report the financial statements have been prepared in accordance with Sri Lanka Accounting Standards and give a true and fair view of the state of affairs of the Textile Quota Board as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

1.2 Comments on Financial Statements

1.2.1 Sri Lanka Accounting Standards

The information on the investment of the sum of Rs.1,683,200 provided for the payment of employees gratuity in accordance with Sri Lanka Accounting Standard 16 had not been separately disclosed in the financial statements.

1.2.2 Accounting Deficiencies

Under Statement in the Accounts

The interest income receivable had been understated by a sum of Rs.257,955 under the accounts receivable.

1.2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed.

Reference to Laws, Rules, Regulations,
etc.,

Non-compliance

(a) Public Enterprises Circular No.
PED/12 of 02 June 2003

(i) Sections 5.1.1 and 5.1.2

The Corporate Plan had not been prepared while the Action Plan had not been approved.

(ii) Section 5.2.4

The annual budget had not been submitted to the Board of Directors 03 months before the commencement of the financial year and approval not obtained.

(iii) Section 9.2

The approved cadre, Scheme of Recruitment and Promotion and the Organisation Structure had not been registered with the Department of Public Enterprises.

(iv) Section 8.3.9

Even though the Line Ministry should not make use of the resources of Corporations and Boards, contrary to such requirement, the Board had paid a sum of Rs.256,620 in the year 2010 as the salaries and allowances of officers serving in the office of the Minister of Textile Development. Action had not been taken to reimburse that amount.

- (b) Value Added Tax (Amendment) Act, No. 14 of 2007
- Even though 1/3 of the Value Added Tax should be retained in the settlement of bills with the Value Added Tax, a sum of Rs.157,897 had not been so retained.

1.2.4 Transactions not Supported by Adequate Authority

- (a) Cash deposits amounting to Rs.774,079 older than 05 years shown under current liabilities, a sum of Rs.303,269 older than 01 year shown under the accounts payable, investments in Treasury Bills amounting to Rs.2,758,176 shown under the non-current assets and a sum of Rs.1,279,960 older than 01 year out of the value of accounts receivable shown under the current assets of the balance sheet as at 31 December 2010 totalling Rs.5,115,484 and written off from the accounts without the appropriate authority in the year 2009 had not been rectified even during the year under review. The Chairman informed that those were written off as balances had arisen due to reasons such as excess provisions and erroneous accounting entries.
- (b) The write off of 02 balance sheet items valued at Rs.1,077,348 and 02 items of liabilities valued at Rs.4,038,136 by the Accountant in the year 2009 during the period in which a Board of Directors was not functioning had not been rectified even during the year under review. Action was being taken to obtain the Treasury approval in this connection.

2. Financial and Operating Review

2.1 Financial Review

2.1.1 Financial Results

The operations of the Board for the year under review had resulted in a surplus of Rs.2,286,406 as compared with the corresponding surplus of Rs.6,470,570 for the preceding year, thus indicating a deterioration of Rs.4,184,164 or 65 per cent in the financial results for the year under review.

2.1.2 Review of Financial Results

The decrease in the financial result had been mainly due to the decrease of the interest income by 35 per cent and the increase of personal emoluments by 25 per cent as a result of recruitment of officers.

2.2 Operating Review

2.2.1 Performance

The following observations are made.

Supply of Services

	2010	2009	Variance
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			%
Number of Garment Factories registered	1,226	1,141	7
Number of Garment Factories in operation at present	668	723	(7)
Number of Institutions subject to Payment of Tax	423	309	37
Number of Cancelled Institutions	83	70	18
Number of Institutions Closed down	52	39	33

2.2.2 Management Inefficiencies

The following observations are made.

- (a) A person had been appointed for the drafting of a new Act and entered into an agreement for the payment of a sum of Rs.45,000 to him. A sum of Rs.22,500 out of that had been paid in the year 2007. Even though that person had drafted the Act and submitted it to the Board of Directors in March 2007, the follow up action to validate that Act had not been taken even up to March 2011.
- (b) The Board had deposited a sum of Rs.13 million in the year 1997 and 1999 in the General Deposit Account No. 6000/0/0/3/606 of the Treasury. The Department of State Accounts had informed the Board that interest would not be paid for the deposits.

According to the Circular No. 30 dated 13 July 2005 of the Department of Public Enterprises, any investments made in the Treasury Bills, Security Deposits and Government Securities or any other investments whatsoever made in any other institutions should be transferred to the Trust Fund of the General Treasury. Despite the elapse of 05 years since the issue of the Circular, the Board had not taken action to transfer the money to the Trust Fund.

2.2.3 Uneconomic Transactions

The following observations are made.

- (a) The Board had awarded a contract valued at Rs.921,265 on 20 August 2007 to a private audit firm for the introduction of an Electronic Monitoring System, the Board expected to implement in the year 2007. Even though payments totalling Rs.582,709 had been made by the year 2010 the expenditure incurred thereon was observed as a fruitless expenditure as the intended purpose had not been achieved, In addition, a sum of Rs.336,070 had been allocated in the accounts for the year under review for this purpose for the year 2011.

- (b) A sum of Rs.5,760,958 had been paid as the rent and the cost of water and electricity of the building with a floor area of 4,124 square feet in which the office of the Board is maintained.

The staff of the Board in service in the year under review had been 43 and as such the office space and the costs were observed as far in excess for the activities of the Board. The Board had spent a sum of Rs.11,164 as office rent per mensem per officer. Due attention had not been paid to regularise the financial management by minimising expenditure in view of the termination of the Textile Quota System and the dependence on the service charge collected annually from the garment industries and the interest on fixed deposits to meet the expenditure of the Board. The number of officers of the Board as at February 2011 stood at 14 and based on the monthly rental of Rs.524,457, the monthly rental per officer per mensem amounted to Rs.37,461.

- (c) Even though the Textile Quota Board had to pay a sum of Rs.95,835 in the year 2010 for introducing a Website for the Board, a Website for the Board had not been introduced up to date. In view of the uncertainty of the going concern of the Board, the commitment entered into by agreement for this purpose is observed as an uneconomic transaction.

2.2.4 Meetings of the Board of Directors

Meetings of the Board of Directors had not been held in the year under review. Thus there was no contribution made by the Board for the decision making process.

2.2.5 Internal Audit

An internal audit of the Board had not been carried out.

3. Systems and Controls

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

- (a) Accounts Receivable and Payable
- (b) Settlement of Loans
- (c) Payment of Office Rent
- (d) Appointment and Promotion of Officers