

Sri Lanka Institute of Textiles and Apparels - 2013

The audit of Financial Statements of the Sri Lanka Institute of Textiles and Apparels for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the comprehensive statement of income, statement of changes in equity and cash flow statement 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 the 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.

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 Standards of Supreme Audit Institutions (ISSAI 1000 - 1810). Those Standards require that I comply with 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 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 Institute'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 Institute'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 the financial statements. Sub-sections (3) and (4) of the Section 13 of the Finance Act No. 38 of the 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 qualified audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, 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 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments of Financial Statements

2.2.1 Accounting Deficiencies

Recurrent expenditure amounting to Rs.95,482 incurred by the Institute in the preceding years for landscaping had been capitalized under the lands.

2.2.2 Accounts Receivable and Payable

The following observations are made.

- (a) Out of the sum of Rs.41,928,671 receivable as at 31 December 2013 on account of the supply of the services of the Institute of credit, a sum of Rs.2,880,285 remained outstanding over a period exceeding 2 years and the Institute had not implemented a course of action for the recovery of those debts.
- (b) Even though Goods and Services Tax amounting to Rs.290,441 brought forward in the accounts of the Textiles training and Services Centre and the fuel cost payable amounting to Rs.55,810 brought forward in the accounts of the clothing Industry Training Institute amalgamated in the establishment of the Institute in the year 2011 had been included in the financial statement, Action had not been taken to settled the accounts.

2.2.3 Lack of Evidence for Audit

The evidence indicate against the following items of account had not been furnished to audit.

Item of Account	Value	Evidence not made available
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	Rs.	
Trade Debtors	41,503,077	Letters of Confirmation of Balances
Fixed Assets	136,667,054	Board of Survey Reports Title Deeds

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

The following non-compliances were observed during the course of audit.

Reference to Laws, Rules, Regulations and Non-compliance Management Decisions

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| <p>(i) <u>Financial Regulations of the Democratic Socialist Republic of Sri Lanka.</u></p> <p>(a) Financial Regulation 110</p> <p>(b) Financial Regulation 104(1)</p> | <p>A separate register had not been maintained for recording the particulars of losses and damage.</p> <p>Even though 02 laptops committee of Inquiry had not been appointed and inquiries had not been conducted to determine those responsible thereto.</p> |
| <p>(ii) Public Enterprises Circular No.95 of 14 June 1994.</p> | <p>Sums totaling Rs.429,000 had been paid during the year under review to 04 officers as the weekend course allowance solely on the approval of the Board of Governors without the approval of the Cabinet for Ministers or the Ministry of Public Administration or the General Treasury.</p> |

3. Financial Review

3.1 Financial Results

The financial result generated from the operating activities of the Institute for the year under review had been a surplus of Rs.41,840,234 as compared with the corresponding surplus of Rs.6,209,102 for the preceding year. The financial result for the year under review, as compared with the preceding year, indicated a favorable variance of Rs.35,631,132 and the increase of the total operating income for the year under review by a sum of Rs.42,410,390 had been the main reason thereto.

4. Operating Review

4.1 Performance

The main objective of the Institute is the training of persons for the textiles and garment manufacture related industries and carrying out services such as tests and consultancy. The performance relating to the execution of those activities as compared with the preceding year is given below.

Activity	2013	2012	Increase/ (Decrease) in the year under review	Increase/ (decrease) percentage
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<u>Training</u>				
Number of Courses conducted	38	36	02	06
Number of participating students	363	583	(220)	(38)
Training Courses Income (Rs. Millions)	15.47	17.38	(1.91)	(11)
<u>On the Requests of External parties</u>				
Number of Courses conducted	141	121	20	17
Number of participating Students	3,067	3,320	(253)	(8)
Training Courses Income (Rs. Millions)	30.89	17.20	13.69	80
<u>Tests</u>				
Number of Tests	60,965	50,105	10,860	22
Tests Income (Rs. Millions)	75.43	47.28	28.15	60
<u>Consultancy Services</u>				
Number of Consultancy services	45	20	25	125
Consultancy Services Income (Rs. Millions)	5.46	2.31	3.15	136

The following observations are made in this connection.

- (a) Even though the participation of 1,089 students for 100 courses had been expected according to the Action Plan for the year 2013, only 38 courses had been conducted by the end of the year with the participation of 363 students. That represented decrease of 726 students than the expected number of students. Nevertheless, the income from the courses as compared with the preceding year as well had decreased by Rs.1.91 million.
- (b) The participation of students for the courses conducted at the request of external parties as compared with the preceding year had decreased by 253. Even though the member of students had decreased, the income from courses had increased from Rs.17.20 million to Rs.30.89 million due to the increase of course fees during the year under review.
- (c) Even though the Institute conducts seminars on the requests made by external parties, the Institute had not conducted any seminars whatsoever seminars in the year under review. Even though it is a major responsibility of the Institute to carry out promotional programed on the organization of such seminars for the prosperity of the Sector among those engaged in the sector, the management had not paid attention to that area.

4.2 Management Inefficiencies

The following observations are made.

- (a) A sum of Rs.669,607 had been paid by the Institute as a surcharge due to computation of the contribution to the Employees' Provident Fund without taking into account the Cost of Living Allowance from the year 2006 to the year 2011.
- (b) Even though a period of 18 years had elapsed after the receipt of 02 motor vehicles as a donation to the Institute, action had not been taken to affect the legal transfer of ownership even up to the end of the year under review.
- (c) Even though a sum of Rs.8 million out of the money provided by the Treasury in the year 2011 for the purchase of equipment for the Polgahawela Yarn Dyeing Centre under the Yarn Dyeing Project, had been spent in August 2011 for the purchase and installation the Yarn dyeing machinery and the related equipment, a Boiler Operator required for operating those machines had not been recruited. The center had not implemented the yarn dyeing activities required by the textile industrialists even up to the end of the year under review. The Institute informed me that it is only entrusted with the function of purchase of the specified places, the function of dyeing the yarn by utilizing the machinery is devolved in the North Western Provincial Council and that the supervision of the related activities is the responsibility of the Ministry of Industries and commerce.

4.3 Underutilization of Funds

Out of the sum of Rs.26,651,969 made available from the provisions of the Ministry for the implementation of 04 Special programmes relating to the Textiles and Apparels Sector in the year under review, a sum of Rs.14,825,602 of 56 per cent had not been utilized for the relevant programmes.

4.4 Transactions of Contentious Nature

A sum of Rs.239,400 had been spent during the year under review for the publication of a notice extraneous to the objectives of the Institute.

4.5 Idle and Underutilized Assets

The following observations are made.

- (a) The stock of machinery spare parts valued at Rs.1,572,971 that existed as at the beginning of the year under review remained idle without being used even by the end of the year.
- (b) Even though a gate and the security hut had been constructed during the year 2011 at a cost of Rs.1,518,560, the gate and the security hut had not been used even up to the end of the year under review.

- (c) A motor vehicle costing Rs.900,000 had been lying idle without being used for running even by the end of the year under review.
- (d) Even though the Institute had maintained a Computer Learning Centre constructed at a cost of Rs.4,163,176, the Information Technology subject had not been included for the courses conducted by the Institute. As such the service rendered by the Institute for the improvement of the Knowledge in Information Technology of the student of the Centre had been very much limited. Nevertheless, that Centre had been kept open for students only for 14 days during the year under review.

4.6 Deficiencies in contract Administration

The following observations are made.

- (a) The cost estimate for the construction of the Engineering Works Building amounted to Rs.8,966,702 and the construction work had been awarded to the lowest bidder for Rs.5,361,615. The Technical Evaluation Committee had not considered as to how the construction could be done for an amount less than the engineering estimate by a sum of Rs.3,605,087. The contractor had abandoned the work in several instances due to the low cost. The original contract estimate as well had been amended several times and the work had been completed after a delay of 2¹/₂ years at a cost of Rs.7,334,470. That amounted to an increase of 37 per cent over the value of the original contract.
- (b) Even though a sum of Rs.199,450 had been paid for fixing a doors and windows, a physical inspection of the construction of the building revealed that rain water had seeped into the building. As such situation could result in causing damage to the electrical equipment and other accessories installed in the building, it was not in a fit condition for use.

4.7 Resources of the Institute given to other Government Institutions

A double cab motor vehicle valued at Rs.7,500,000 given by the General Treasury to the Institute in the year 2012 had been released for use by the line Ministry contrary to Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

4.8 Personnel Administration

The following observations are made.

- (a) The Institute had not prepared the new Scheme of Recruitment, Scheme of promotions and the Organization Chart for the approved cadre and obtained the approval of the Department of Management Services. In addition, the proposed Scheme of Recruitment under the restructure had not been forwarded to the National Salaries and Cadre Commission and obtained its recommendations.

- (b) According to Section 12(1) of the Sri Lanka Institute of Textiles and Apparels Act, No.12 of 2009, the Institute should establish a personnel Development Fund for the improvement of the skills and knowledge of the staff of the Institute, Nevertheless, such personnel Development Fund in terms of the said section had not been established even by the end of the year under review.

5. Accountability and Good Governance

5.1 Internal Audit

An Internal Audit Unit had been established and an Accountant of the line Ministry had been appointed on acting basis to attend to the internal audit work of the Institute. The copies of two internal audit queries for the year under review only had been furnished to the Auditor General.

5.2 Procurement Plan

Even though the procurement Entity should prepare a Master procurement plan including the procurement activities envisaged at least for a period of three years in terms of Section 4.2.1(a) and (b) of the Government procurement Guidelines, the procurement Plan had not been prepared even by the end of the year under review.

5.3 Budgetary Control

Variances ranging from 32 per cent to 154 between the budgeted income and the actual income and variances between 16 per cent to 194 per cent between the budgeted expenditure and the actual expenditure were observed, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.4 Tabling of Annual Reports

The Report relating to the year 2012 had not been tabled in parliament even by 31 March 2014.

5.5 Unsettled Audit Paragraphs

Even though the Committee on Public Enterprises had directed at the meeting held on 16 October 2012 that attention should be paid for conducting scientific researches of the clothing industry, apart from the establishment of a Research and Development unit and carrying out primary examination of the clothing industry, on other work had been done by the unit.

6. 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) Accounting
- (b) Accounts Receivable and Payable
- (c) Assets Control
- (d) Personnel Administration
- (e) Stores Control
- (f) Organization of Courses