

Report of the Auditor General on Head 303 – Department of Textile Industries – Year 2015

The audit of the Appropriation Account and the Reconciliation Statements including the financial records, books, registers and other records of the Department of Textile Industries for the year ended 31 December 2015 was carried out in pursuance of provisions in Article 154 (1) of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Director of the Department on 24 January 2017. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

1.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account, and the Reconciliation Statements in accordance with the provisions in Articles 148,149,150 and 152 of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Financial and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliations Statements that are free from material misstatements whether due to fraud or error.

2. Accounts

2:1 Appropriation Account

(a) Total Provision and Expenditure

The total net provision made for the Department amounted to Rs. 103.50 million and out of that Rs. 86.53 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provision of the Department had been Rs. 16.97 million or 16.40 per cent of the net provision. Details appear below.

Expenditure	As at 31 December 2015			Savings as a percentage of Net Provisions
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	72.00	68.25	3.75	5.21
Capital	31.50	18.28	13.22	41.97
Total	103.50	86.53	16.97	16.40

(b) Utilization of Provisions made available by other Ministries and Departments

Provisions totalling Rs. 11.00 million had been made available by the Ministry of Industry and Commerce for various activities. Out of that provisions, a sum of Rs.10.78 million had been utilized. Accordingly, the savings out of the provision made available had been Rs. 0.22 million or 2.00 per cent by the end of the year under review.

2.2 Advance Account

2.2.1 Advances to Public Officers Account

Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Accounts of the Department under Item No.30301 and actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
3.65	3.73	2.80	3.46	25.00	11.79

2.3 General Deposit Account

The balances of 02 Deposit Accounts of the Departments as at 31 December 2015 totalled Rs. 7.76 million. Details appear below.

Deposit Account Number	Balance as at 31 December 2015
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	Rs. Millions
6000/0000/00/0015/0158/000	7.66
6000/0000/00/0013/0132/000	0.10

Total	7.76
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2.4 Audit Observation

According to the Financial Records and Books for the year ended 31 December 2015, it was observed that subject to the audit observations appearing in paragraph 1.1 of the Management Audit Reports, the Appropriation Account and the Reconciliation Statements of the Department of Textile Industries had been satisfactorily prepared. The material and significant observations out of the observations included in those Management Audit Reports appear in Paragraph 3 herein.

3. Material and Significant Audit Observations

3.1 Non – maintenance of Register and Books

It was observed during audit test checks that the Department had not maintained the following registers.

Category of Registers	Relevant Regulation
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(i) Register of Fixed Assets on Computers, Accessories and Software	Treasury Circular No. IAI/2002/02 dated 28 November 2002.
(ii) Record of Liabilities	Financial Regulation 214

3.2 General Deposit Account

The following observations are made.

- (a) A list of lapsed deposit had not been prepared at the close of each half year as required by the Financial Regulation 571 (1) and action in terms of Financial Regulation 571 (3) had not been taken on the lapsed deposits totalled Rs. 119,480.
- (b) Although the manner in which the action should be taken on the Sundry Deposit Account had been specified in Paragraphs 5.3 and 5.4 of the Public Account Circular No.243/2015 dated 24 June 2015, the Department had not taken action accordingly.

3.3 Reconciliation Statement on Advances to Public Officers Account

According to the Reconciliation Statement as at 31 December 2015 on Advances to Public Officers Account Item No.30301, the balances that remained outstanding as at that date totalled Rs. 110,220. Although those outstanding balances had continued to exist over a period ranging from 08 years to 12 years, the Department had failed to recover those balances.

3.4 Good Governance and Accountability

3.4.1 Annual Action Plan

In terms of the Public Finance Circular No.01/2014 dated 17 February 2014, the Annual Action Plan relating to the prescribed financial year should have been prepared within the three years Interim Budget Framework for the implementation of approved budget estimates. The organization structure, details of the approved cadre and actual cadre and the Internal Audit Plan referred to in the paragraph 3 of the Circular had not been included in the Action Plan prepared for the year under review.

3.4.2 Annual Procurement Plan

In terms of Guidelines 4.2.1 (b), (c), (e) and 4.2.2 (a) of the Government Procurement Guidelines, the procurement entity should prepare a Master Procurement Plan including the procurement activities envisaged at least for a period of 03 years and the procurement activities for the immediately succeeding year should be prepared in detail. Although that plan should be updated at intervals not exceeding six months and the procurement time schedules should also be prepared, the Department had not prepared the Procurement Plan accordingly.

3.4.3 Internal Audit

An Internal Audit Unit had not been established by the Department.

3.4.4 Annual Performance Report

In terms of the Public Finance Circular No.402 dated 12 September 2002, the Department should table its Performance Report in Parliament within 150 days from the close of the financial year. Nevertheless, that report pertaining to the year 2015 had been tabled in Parliament on 24 August 2016.

3.5 Assets Management

(a) Idle and Underutilized Assets

It was observed during the audit test check that the following had remained either idle or underutilized.

- (i) The Hiramadagama Textile Industry Training Schools situated at ,Kahawatta and Shanthipura Textile Industry Training Schools situated at Nuwara Eliya

had remained inoperative even in the year under review as in the case of previous years.

- (ii) A Motor vehicle owned by the Department had remained idle from the year 2013 while another vehicle had remained underutilized.

(b) Unsettled Liabilities

The unsettled liabilities of the Department that remained outstanding for a period less than one year as at 31 December 2015 totalled Rs.432,887.

3.6 Non-compliance

The instances of non-compliance with the provisions of Laws, Rules and Regulations observed during the course of audit test check are analyzed below.

Reference to Laws, Rules and Regulations -----	Non-compliance -----
<p>(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. ----- Financial Regulation 1646</p>	<p>The Daily Running Charts and the monthly summary reports of the pooled vehicles of the Department had not been furnished to Audit before 15th of the following month.</p>
<p>(b) Public Finance Circulars ----- Paragraph 3.4 of the Circular No.402 (1) dated 20 February 2004.</p>	<p>Although a report including the details of the assets purchased after 01 January 2004 should be half yearly furnished to the Department of State Accounts with a copy to the Department of Public Finance, action had not been taken accordingly.</p>

3.7 Performance

According to the Annual Budget Estimate and the Action Plan of the year 2015, the observations of the progress of the Department is given below.

(a) Activities Contrary to the Key Functions

A sum of Rs.252,000 had been spent during the year under review for the publication of a newspaper advertisement in respect of an activity outside the objectives of the Department. The Director had informed the Audit that the relevant payment had been made for that purpose on the approval of the Secretary to the Ministry.

(b) Activities not Executed Adequately

The following observations are made.

- (i) With the objective of providing fully-fledged knowledge and training relating to handloom textile industry and creating managers, instructors and entrepreneurs required for the industry, Textile Industry Training Schools had been established in various regions of the island and trainings had been provided annually, free of charge. According to the Action Plan, it had been planned to enroll 200 students for the one year course on Textile Industry Training relating to the period from 01 July 2014 to 31 July 2015. Nevertheless, only 180 students had been enrolled therefor. The number of students who had completed course had been 152 or 84 per cent of the total number of students enrolled.
- (ii) With the objective directing the producers towards the innovative and competitive textile products in the field of handloom textiles to capture the local and foreign market in a manner to suit the local identity and culture, one year residential course in embroider making had been conducted for the embroider makers by the Embroider Training Schools at Getambe and Katubedda. Although it had been targeted to enroll 100 students for the academic year from 12 January 2015 to 11 January 2016, only 22 students had been enrolled and out of that only 14 students had completed the course. Accordingly, it had been 64 per cent of the total number of students enrolled.
- (iii) Three hundred and forty one students had been enrolled for the Textile Industry Training Schools for the academic years 2014/2015 and 2015/2016 while 22 students had been enrolled for the Embroider Training Schools for the academic year 2015/2016. Nevertheless, only one personality development programme had been conducted and 28 students only had been involved therefor.
- (iv) With a view to promoting sales of the entrepreneurs of the textile industry, a National Handloom Textile Exhibition had been organized by spending a sum of Rs.5,315,772. Although it had been planned to provide sales facilities for 80 entrepreneurs, only 46 entrepreneurs had been provided with the sales facilities.
- (v) At the trade fair conducted during three days for the sales promotion of the small and medium scale industrialists by spending a sum of Rs.2,095,400, sales facilities had been provided only for 25 entrepreneurs.

(c) Planning

The following programmes planned according to the Action Plan had not been implemented during the year.

- (i) Although plans had been drawn to conduct skills development workshops for the officers of the Department under the in-service training for the promotion of productivity, those workshops had not been conducted.
- (ii) The Textile Restructuring Project which had been planned to implement under the promotional activities with the intention of promoting the enrollment of students for the Textile Schools had not been executed.

3.8 Deficiencies in the Operation of Bank Accounts

The following observations are made in this connection.

(a) Long Delays in the preparation of Bank Reconciliation Statements

In accordance with the Financial Regulation 395 (c), the Bank Reconciliation Statements on the position of the transaction as at the end of each month should be prepared before the 15th of the following month. Nevertheless, a delay for a period ranging from 11 days to 150 days was observed in the preparation of Bank Reconciliation Statements during the year under review.

(b) Outdated Cheques

Action in terms of the Financial Regulation 396 (d) had not been taken in connection with the cheques valued at Rs.118,071 older than 06 months as at 31 December 2015 issued but not presented for the Bank for the payments.

3.9 Irregular Transactions

Certain transactions entered into by the Department had been devoid of regularity. Several such instances observed are given below.

(a) Deviating from the Government Procurement Guidelines.

The following observations are made.

(i) Building repairs, floor carpeting and partitioning of rooms

The Department had paid a sum of Rs.3,272,350 for the repairs of the 3rd floor of the Department of Pensions obtained on rent and the following observations are made in that connection.

- A Time Schedule had not been prepared by indicating the stages from the beginning to the end of the procurement as

required by the Guidelines 4.2.2 (a), (b) and 4.2.3 of the Government Procurement Guidelines.

- The preparation of the draft bidding documents including the specifications and submission of the same for the Technical Evaluation Committee for review and approval had not been done as required by the Guideline 2.3.2 (c) of the Government Procurement Guidelines and some contracts had not been properly planned and submitted for the approval of the Technical Evaluation Committee.
- Plans had not been properly prepared for the fabrication of ceiling , newly construction of lavatories and partitioning of rooms relevant to this contract and forwarded them for the approval of the Technical Evaluation Committee and those works had been subject to alteration from time to time.
- In accordance with the Guideline 5.3.3 of the Government Procurement Guidelines, all information should be included in the instructions issued to the bidders. Nevertheless, contrary to that, the qualifications of the bidders had been enquired after the opening of the bids. Accordingly, the bid presented the institution that had quoted the minimum bid for the contract relating to the repair of buildings had been rejected by stating that the information was not available on the prior works of the institution. Therefore, the contract had been awarded to the institution that had quoted the second minimum bid which exceeded the first minimum price by Rs.146,300.
- The Government Factory, Kolonnawa had forwarded a bid amounting to Rs.1,289,800 for the contract relating to the carpeting of floor and partitioning of rooms. It had not been revealed by the report of the Technical Evaluation Committee that the above bid was subjected to the evaluation.

(ii) Purchase of Handloom and Winding Machines

A sum of Rs. 14,324,687 had been paid for the purchase of 245 Handloom 60’’ machines and 225 Winding machines for the Handloom Project, Matale and the development programmes of the Department during the year 2015. The following observations are made in this connection.

- The final stock of this procurement process commenced on 20 June 2014 had been supplied on 24 March 2016 after a delay of 20 months.
- According to the agreement entered into for the purchase of Handloom 60'' machines and 225 Winding machines on 19 November 2014, goods should be supplied before 31 December 2014, whereas a period from 25 August 2015 to 24 March 2016 had been passed for the supply of those machines.
- In accordance with the Guideline 5.4.10 (d) of the Government Procurement Guideline, a performance security of not less than 10 per cent of the contract value of the goods should be obtained for the goods, whereas a performance security of 5 per cent only had been obtained.
- Out of 175 Handloom Machines and 150 Winding Machines purchased for the handloom project, Matale, only 50 Handloom Machines and 50 Winding Machines had been distributed and as the said project had not been implemented, the it had not been possible to distribute the remaining machines.
- Out of the 245 Handloom Machines and 225 Winding Machines purchased, 130 Handloom Machines and 136 Winding Machines had remained in the Stores by 28 June 2016.

(iii) Renovation of 02 buildings of Talawa Training Centre

A sum of Rs.1,728,425 had been paid for the renovation of 02 buildings of the Talawa Training Centre and the following deficiencies were observed in that connection.

- According to the Guideline 2.3.2 (c) of the Government Procurement Guidelines, although it had been stated that the procurement entity should be responsible for the preparation of draft bidding documents including the specifications and submission of the same for the Technical Evaluation Committee for review and approval, the bids for the above purchase had been opened on 07 August 2015 and subsequently the Technical Evaluation Committee had been appointed on 02 September 2015.
- The report of the Technical Evaluation Committee on this renovation had been submitted on 06 October 2015. Although evaluation of bid

should be undertaken as expeditiously as possible as required by the Guideline 7.4.1 of the Government Procurement Guidelines, the report of the Technical Evaluation Committee had been submitted after a delay of 02 months from the date of opening bids.

- The institution selected for the award of the relevant contract had registered with the ICTAD institute in the year 2010. Nevertheless, the particulars on the prior works of that institution had not been mentioned. The reasonable grounds which gave rise to the selection of this contractor had not been specifically indicated in the report of the Technical Evaluation Committee.

3.10 Uneconomic Transactions

The particulars of transactions entered into devoid of economy revealed during the course of test checks are given below.

- (a) As the internal water leakage caused at the Watapuluwa Textile School had not been discovered and action had not been taken to stop that leakage, payments for the water bills amounting to Rs.124,179 had been made in respect of the waste water.
- (b) By stating that the Security Institution should be responsible for a theft committed in the year 1992, the payment for that institution had been ceased from November 1992. According to the judgement of the case filed by the Security Institution against that decision, a sum of Rs.1,476,770 together with the legal interest of Rs.823,570 had been paid in the year under review.

3.11 Management Weaknesses

Following deficiencies were observed at the audit test checks.

- (a) Power loom textile industries belonged to the Department of Textile Industries had been given to the private sector on long term lease basis. The following observations are made in this connection.
 - (i) The Department had not taken action according to the following provisions referred to in the Circular No. SEI/A/4/34 dated 21 July 1995 of the Presidential Secretariat titled Guidelines on the Transfer of Government Lands.
 - According to the Paragraph 8 (a) of the Circular, the lease rent had not been revised once in five years so as to be not less than 150 per cent of the predetermined amount.
 - According to the Paragraph 8 (a) of the Circular, it had been stated that the Lease Agreement will automatically become abolished in case of default of the lease rent, whereas action had

not been taken accordingly in respect of the Textile Factories at Yatinuwara, Thalathuoya and Udunuwara.

- According to the Paragraph 9, the Lessor should regularly renew the Lease Agreement and collect the lease rent without giving room to accumulate the arrears. Nevertheless, it had not been so done in respect of the Textile Factories at Hingurakkoda, Bibila, Yatinuwara, Thalathuoya and Udunuwara.
- (ii) Relating to the sale of Textile Factories at Bibila and Passara belonged to the Bandarawela Power loom Textile Industry, a case had been filed for the recovery of money in respect of their spare parts. The judgment of that case had been delivered on 23 June 2001. According to the said judgment, a sum of Rs.845,268 receivable as the interests should be recovered within 03 years from that date. Nevertheless, action had not been taken to recover that amount.
- (iii) The Nim Ham institution at Bibila had been leased out from 01 January 1996 at an annual lease rent of Rs.150,000. As business activities had not been had not been carried out therein, the land and the buildings had been taken over by the Department on 04 August 2011 and that property had been handed over to the Divisional Secretariat on that day itself. The Department had not taken action to recover the lease rent amounting to Rs.1,681,250 due from the Lessee.
- (iv) The land in which the Hingurakkoda Power loom Factory was situated and the building had been leased out on 31 January 1993 at an annual lease of Rs.108,000. As the lessee had defaulted lease rent, it had been handed over to the Divisional Secretariat on 12 February 2001. Action had not been taken to recover the arrears amounting to Rs.529,600 due from the relevant lessee to the Department.
- (v) In order to recover the amount due from the buyer of the Kuruwita Power loom Factory, a case had been filed. According to the judgment of that case, a sum of Rs.1,355,079 had to be recovered as the fine interest relating to the spare parts. Although a sum of Rs.225,846 out of that had further remained receivable, the Department had not taken action to recover that amount.
- (vi) The Power loom Factory at Yatinuwara had been leased out on an annual lease rent of Rs.212,000 on 14 July 1995 under the thirty years lease basis. As the encroachers were residing in a part of this land, the Department had not taken action to handover the free and peaceful tenure of the land to the lessee by settling the said issue. As such, it had not been possible to recover lease amounting to Rs.2,756,000 remained receivable from the date of lease of the property up to the year 2012.

Lease rent had been paid at Rs.212,000 per annum from the year 2013 without paying that outstanding lease rent.

- (vii) The Power loom Factory at Thalathuoya had been leased out on an annual lease rent of Rs.148,000 on 01 December 2000 under the thirty years lease basis. The lessee had paid a sum of Rs.1,184,000 only for the period of 08 years from the year 2000 to 2004 and 2013 to 2016 during which the business was carried out. Remaining lease rent of Rs.1,036,000 had not been recovered.
 - (viii) The Power loom Factory at Udunuwara had been leased out on an annual lease rent of Rs.216,000 on 01 February 2000 under the thirty years lease basis. The lessee had abandoned this place without carrying out business activities and it had not been possible to recover the lease rent of Rs.3,240,000 due from the lessee as at 01 February 2015.
 - (ix) A case had been filed in order to recover a sum of Rs.2,694,443 due for the spare parts of the machinery of the Kalutara Power loom industry. According to the judgment delivered on 22 April 1992, those amount had to be settled in 36 installments. Nevertheless, a sum of Rs.1,991,962 had remained outstanding even by the end of the year under review and instructions of the Attorney General had been sought to recover that amount. As the last installment of the arrears amount had been paid in the year 1999, the period of the recovery of relevant money had elapsed to file cases in terms of Section 337 (1) of the Civil Procedure Code and as such the Attorney General had informed that there is no legal provisions therefor.
 - (x) A Vehicle granted by the Ministry of Finance to the Department on 05 August 2010 had not been lawfully transferred in the name of the Department and a sum of Rs.999,425 had been spent in respect of its repairs from the year 2012.
- (b) The Vehicle bearing No.64-3210 granted by the Ministry of Finance to the Department on 05 August 2010 had not been lawfully transferred in the name of the Department and a sum of Rs.996,425 had been spent in respect of its repairs from the year 2012.
- (a) Although 175 Handloom Machines and 150 Winding Machines had been purchased from the provisions of the Ministry for the implementation of Textile Industry Development Programme in the Matale district, Handloom Machines and Winding Machines had been provided only for 02 Divisional Secretariat at 50 each under this programme.

3.12 Human Resources Management

Approved and Actual Cadre

Cadre position as at 31 December 2015 was as follow.

Category of Employee	Approved Cadre	Actual Cadre	Number of Vacancies	Number of Excess
(i) Senior level	05	04	01	-
(ii) Tertiary Level	01	-	01	-
(iii) Secondary Level	109	93	16	-
(iv) Preliminary Level	42	20	22	-
(v) Others(Casual/ temporary/Contract)	-	05	-	05
Total	157	122	40	05

The following observations are made.

- (a) Three Textile Instructors of the Department had been attached to the Head Office for the activities outside the duties applicable to the relevant post.
- (b) An officers who was served as a Development Officer of the Department had been attached to the Divisional Secretariat, Galle as an Officer in Charge of the Southern Province of the Department with effect from 10 January 2011.