

Head 303 - Report of the Auditor General on the Department of Textile Industry Year 2017

The Appropriation Account and the Reconciliation Statement under Head and Item Number stated in the First Schedule and Third Schedule of the Appropriation Act, No. 24 of 2016 as amended by the Appropriation (Amendment) Act, No.32 of 2017 were presented to Audit by the Department of Textile Industry. The financial and physical performance reflected by the said account and the reconciliation statement were audited in terms of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Financial Management and Accountability

The Minister of Finance is charged with the raising of Revenue and the collection of other Government monies as well as with the general oversight of all the financial operations of Government in terms of Financial Regulation 124 of the Democratic Socialist Republic of Sri Lanka. The Chief Accounting Officers have been appointed by the Minister of Finance to discharge the above responsibility in terms of Financial Regulation 124(2). The Head of the Department will be the Accounting Officer in respect of all the financial transactions of his Department in terms of Financial Regulation 125(1)(a) and the Revenue Accounting Officer has been appointed by the Treasury. This responsibility includes designing, implementing and maintaining internal controls relevant to the maintenance, preparation and fair presentation of Accounts and Reconciliation Statements presented within the limitations imposed by Parliament in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions, Government Financial Regulations and Administrative Regulations.

1.3 Scope of Audit

The audit of the Department of Textile Industry – Head 303 for the year ended 31 December 2017 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka in respect of designing of financial and physical performance, Government expenditure, Government revenue, management of human and physical resources, apply of internal control systems, compliance with laws, rules and regulations and maintenance of books, registers, records and reconciliation statements in an updated manner, preparation and presentation of accounts in timely manner, issuance of performance reports to respective parties based on the performance indicators. The Management Audit Report for the year under review was issued to the Director of the Department on 19 October 2018. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the plans, accounts, reconciliation statements and performance reports 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.

1.4 Audit Observation

The audit observations of the Department of Textile Industry for the year ended 31 December 2017 revealed in audit, appear in the Management Audit Report in detail, mentioned in paragraph 1.3 above. The material and significant audit observations out of the said observations appear from paragraphs 2.1 to 2.10 of this report. It was observed that the accountability as the Accounting Officer had been satisfactorily executed, to ensure the adequacy of the financial administration subjected to the following summarized audit observations revealed in the execution of the provisions of the Financial Regulation 128 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

Accountability of the Accounting Officer in terms of Financial Regulation 128(1)	Non-compliance with that Provision by the Accounting Officer	Reference to the Paragraph of the report which included the Observation
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Financial Regulations

128(1)(a)	That the work of his department is planned and carried out with due despatch, having regard to the policy laid down by the Government and the intentions of Parliament in granting him financial provision for the activities authorised, and that an endeavour is made to complete the programme of work laid down for the year and/or to attain the targets specified;	1. Failure in planning procurement activities/ Planning procurement activities in an adequate manner. 2.2.1 2. Uneconomic Transactions 2.4
128(1)(b)	That the organization for financial control and accounting in his department is effective, and provides adequately for the correct ascertainment, where necessary, of dues to Government, the systematic, complete and prompt collection of dues, and bringing to account of monies received, the authorisation of commitments on	Deficiencies in the implementation of Procurement Process 2.2.2

behalf of the Government, the supervision and examination of services and supplies rendered, and the prompt and correct payment therefor from public funds;

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| 128(1)(e) | That adequate and proper arrangements are made for the safe custody and preservation of money, stores, equipment and other assets belonging to the Government, or is in its custody, and that these are verified from time to time; and, where they are disposed of, such disposal is according to prescribed Regulations and instructions; | Deficiencies in management of assets | 2.3 |
| 128(1)(f) | That such information, statements and returns as are called for by the Chief Accounting Officer or the Treasury, are rendered correctly and promptly; | Delay in presentation of Annual Performance Report | 2.1.2 |
| 128(1)(h) | That special arrangements are made to recover outstanding dues and that the officers assigned that task report to him at least once a quarter or as otherwise directed regarding arrears and action pursued to expedite their recovery; | Recovery of outstanding loan balances in the Advances to Public Officers Account | 2.7 |
| 128(1)(i) | That the activities of his department are undertaken with due regard to economy, efficiency, propriety and integrity expected in the transaction of public business; | Management Weaknesses | 2.5 |
| 128(1)(m) | That an Appropriation Account is rendered to the Chief Accounting Officer at the end of the financial year in respect of each Programme of a Head of Expenditure for which he is responsible as Accounting Officer; | Deficiencies in the Appropriation Account | 2.6(a)i |

2. Material and Significant Audit Observations

2.1 Performance

2.1.1 Non-performance of Functions

Non-performance of Functions included in the Action Plan

Even though implementation of Handloom Projects and publication of a Book on Natural Colours had been planned according to the Action Plan, it had not been so carried out. As such, provisions made from the Annual Budget Estimate amounting to Rs.3.95 million had become fruitless.

2.1.2 Annual Performance Report

In terms of the Public Finance Circular No.402 of 12 September 2002, the Performance Report relating to the year under review should be tabled in Parliament within 150 days after closure of the financial year by the Department of Textile Industry, that Report had not been tabled in Parliament even by September 2018.

2.2 Obtaining Supplies and Services through the Procurement Process

2.2.1 Procurement Plan

A detailed Procurement Plan had not been prepared and the Master Procurement Plan should be updated regularly within a period not more than 06 months. However, the Procurement Plan for the year under review had been revised only on 22 December 2017.

2.2.2 Implementation of the Procurement Process

A sum of Rs.34.72 million had been spent by the Department for renovation of Textile Schools of Kirama, Sammanthurai and Hakmana and Katubedda Training Centre and for the purchase of handloom equipment and other materials. The following observations are made in this connection.

- (a) Action in terms of Guidelines 8.12.2 and 8.13.4 of the Government Procurement Guidelines had not been taken.
- (b) In terms of Sub-section 8(a) of the Agreement, 75 per cent of the gross value of work done exceeding 50 per cent of the estimated value determined quantitatively or otherwise on the certificate issued by the Technical Officer authorized by the Director, can be paid. However, action had been taken contrary to that in 03 instances in which renovations were carried out.
- (c) The lowest bid had been rejected by stating that the unit price per item submitted by the bidder who had submitted the lowest bid for renovation of Hakmana Textile School and

the said contract had been awarded to the bidder who had submitted a bid exceeded by Rs.0.22 million than the said lowest bid.

- (d) The item of 11.15 square feet in extent and costing Rs.0.29 million mentioned in the estimate relating to the renovation of Kirama Textile School, had not been carried out by the Contractor.
- (e) Hundred and forty five handlooms to be supplied as at 20 December 2017 had not been received even by 31 December 2017 and 215 handlooms and 418 winding machines had remained.

2.3 Assets Management

The following deficiencies were observed during the course of audit test checks carried out in respect of assets of the Department.

(a) Utilization of Motor Vehicles

Two motor vehicles had been obtained on 08 March 2017 on operating lease method by the Department and sums of Rs.1.62 million and Rs.2.21 million had been paid as an annual hire for the Motor Car and the Double Cab motor vehicle respectively in the year under review. Moreover, a distance of 13, 429 km and 29,108 km had been run by the Motor Car and the Double Cab motor vehicle respectively within the 10 months of the year. Even though at least a distance of 3,500 km should be run per month, only 1,342 km and 2,910 km had been run respectively by the said motor vehicles.

(b) Non-receipt of Income receivable from Assets to the Government

Lease rentals amounting to Rs.15.46 million and the value of spare parts recoverable from Power Loom Textile Industries leased out on long term basis to the private sector by the Department, could not be recovered even by the end of the year under review.

2.4 Uneconomic Transactions

Even though a sum of Rs.0.52 million had been paid as charges for reserving the Town Hall and for newspaper advertisements with a view to conducting the National Handloom Textile Exhibition and Awards Ceremony in Sammanthurai, the said sum had become uneconomic due to failure in conducting the relevant Ceremony.

2.5 Management Weaknesses

The following weaknesses were observed during the audit test checks.

- (a) Even though the lease rental should be revised by 150 per cent once in 05 years, the Department had cited in agreements that lease rental is revised from time to time.

However, lease rentals had been revised only in 04 power loom sites in the year 2016 for the first time.

- (b) A register on receipt of lease rentals from Power Loom Textile Industries leased out by the Department had not been maintained.
- (c) A sum of Rs.2.40 million had been spent for the Handloom Textile Fashion Show held within a duration of one and a half hours on 15 December 2017 concurrently with the National Handloom Textile Exhibition. The said expenditure represented 37 per cent of the expenditure for Textile Schools and Design Training Schools of the year.
- (d) One hundred and forty seven handlooms and 122 winding machines had been issued from stores for the Maradamuna Textile Industry Project and the Handloom Textile Industry Project in Ampara District from provisions of the Ministry. However, information that those machines had been provided to beneficiaries themselves who had obtained them through Divisional Secretaries, had not been made available. Further, an agreement had not been entered into with those beneficiaries and follow up action as well had not been taken thereon.
- (e) Functions such as formulation of policies in relation to the development of the handloom textile industry, organization of international trading activities, introduction of new technology and related development activities and experimental research and conservation work required for the uplifting of the handloom textile industry that should be performed for achieving objectives of the Department, had not been carried out during the year under review.

2.6 Utilization of Provisions made available by Parliament for the Performance of Functions

Information on provisions made for the Department during the period of 05 years ended 31 December 2017, utilization and savings thereof and audit observations thereon are given below.

Year	category of Expenditure	Net Provision	Utilization	Savings	Savings as a Percentage of the Net Provision
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		Rs.Millions	Rs.Millions	Rs.Millions	
2013	Recurrent	299.55	291.98	7.57	2.52
	Capital	26.10	21.65	4.45	17.05
	Total	325.65	313.63	12.02	3.69
2014	Recurrent	427.68	418.67	9.0	2.11
	Capital	33.70	30.99	2.71	8.04

	Total	461.38	449.66	11.72	2.54
2015	Recurrent	72.00	68.25	3.75	5.21
	Capital	31.50	18.28	13.22	41.96
	Total	103.50	86.53	16.97	16.39
2016	Recurrent	72.80	67.29	5.51	7.57
	Capital	33.15	33.02	0.13	0.39
	Total	105.95	100.31	5.64	5.32
2017	Recurrent	120.81	115.18	5.63	4.66
	Capital	36.45	24.51	11.94	32.76
	Total	157.26	139.69	17.57	11.17

(a) Appropriation Account

The following observations are made.

(i) Excess Provisions

Excess provision totalling Rs.14.99 million had been made for 07 Objects and as such the savings, after the utilization of provisions totalling Rs.62.63 million, ranged between 07 per cent and 49 per cent of the net provisions relating to the respective Objects.

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

Provisions totalling Rs147.62 million comprising Rs.50.00 million and Rs.97.62 million had been made available by another Ministry and a Department for various activities. Out of that, only a total sum of Rs.39.81 million had been utilized by the end of the year under review. Accordingly, savings out of the provisions made, amounted to Rs.107.81 million representing 73 per cent.

2.7 Advances to Public Officers Account

Limits Authorized by Parliament

Limits authorized by Parliament for the Advances to Public Officers Account, Item No.30301 of the Department and the 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
5.50	5.15	3.20	3.64	30.00	14.27

Action in terms of paragraphs 3.2.1 and 3.2.2 of the Budget Circular No.118 of 11 October 2004 in respect of the loan balance amounting to Rs.0.06 million recoverable from an employee who had gone on transfer to the Department of Textile Industry of the Central Provincial Council.

2.8 Internal Audit

In terms of the Circular No.DMA/2009 (1) of 09 June 2009 of the Management Audit Department, an Internal Audit Unit had not been established in the Department and an Internal Audit had not been carried out even by the Ministry.

2.9 Sustainable Development

Every Government Institution should act in terms of the 2030 “Agenda” of the United Nations for Sustainable Development and the Department had identified sustainable development goals 01 and 09 as objectives to be achieved under its scope. However, internal circulars and guidelines relating to implementation of them had not been issued. Moreover, making stakeholders of the Department aware of implementation of sustainable development goals, preparation of a methodology for the management of existing physical resources at present and identification of a methodology for monitoring relevant functions had not been carried out.

2.10 Human Resources Management

2.10.1 Approved Cadre, Actual Cadre and Expenditure on Personal Emoluments

The position on the approved cadre, actual cadre vacancies and excess cadre as at 31 December 2017 for the performance of functions of the Department, appear below. The Department had spent a sum of Rs.57.51 million for the category of personal emoluments for the year under review.

Category of Employees	Approved Cadre	Actual Cadre	Vacancies as at 31 December 2017
(i) Senior Level	05	03	02
(ii) Tertiary Level	01	-	01
(iii) Secondary Level	109	82	27

(iv) Primary Level	42	34	08
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Total	157	119	38
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The following observations are made in this connection.

- (a) The posts of the Department such as, the Deputy/Assistant Director (Development) and the Administrative Officer had been vacant since the years 2011 and 2008 respectively.
- (b) The utilization of provisions made for trainings during 05 preceding years had been 93 per cent in the year 2013 and it had become 73 per cent by the year under review.
- (c) Ten officers subjected to annual transfers have been serving in the Department even by the end of the year under review without obtaining transfers over a period from 06 years to 14 years.