

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Institute of Textile and Apparel for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and the Financial Act No. 38 of 1971 . My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Institute’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Institution or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Institute is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following.

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Institut., and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute ;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statement

1.5.1 Internal Control over the Preparation of Financial Statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with Management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with Management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non- compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Non-compliance with Reference to the Standard	Comments of the Management	Recommendation
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Although the residual value and useful life of an asset should be reviewed as at the date of the end of each annual reporting period as per the Sri Lanka Public Sector Accounting Standard No. 07 and though the fully depreciated property plant and equipment cost at Rs.204,839,496 had been used in the Institution without reviewing their useful life, actions had not been taken to re-value the assets and to adjust their fair value into accounts.	Reports on assets such as vehicles, land and buildings has been submitted to the Comptroller General's Office as per their format. The revaluation report for other assets has not yet been received. This will be submitted as soon as received.	Assets should be re-valued and their fair value should be adjusted to the accounts.

1.5.3 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) Depreciation of fixed assets for the year under review had been understated by Rs.97,628 .	It has been understated in the accounts. This decrease was corrected in the year 2020.	The accurate value of depreciation should be accounted for.
(b) The amortization for the year under review had been understated by Rs.161,159 .	This amount was corrected in the year 2020.	The accurate value of amortization should be accounted for .
(c) The balance of the audit fee account payable had been understated by Rs. 500,000 at the end of the year under review.	A sum of Rs. 1,000,000 has been allocated for audit fees for the years 2018 and 2019 .	The amount payable should be properly accounted for.
(d) The gratuity to be provided for the year under review had been understated by Rs. 411,882 .	The gratuity to be provided in the year under review has been made in the year 2020.	The accurate value should be accounted for.

1.5.4 Accounts Receivable and Payable

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
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There was a balance of Rs. 4,371,094 for more than 03 years within the trade debtor balance of Rs.11,045,603 shown in the financial statement as at the end of the year under review. The Institute had not followed a formal procedure to recover the balance.	The collections from debtors is currently being carried out in a proper manner. Reminders are sent regarding it from time to time. As a result, they are settling their debts and recoveries are being carried out in installment basis.	The Institute should implement a formal programme to recover the arrears.

1.6 Non- compliance with Laws, Rules, and Regulations

The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non – compliance	Comments of the Management	Recommendation
a) Public Enterprise Circular No. PED / 2/2015 dated 25 May 2015	Although all communication charges can be reimbursed by the authorized officers subject to the approved maximum limit in terms of the Paragraph 2 of the Circular, the Institute had added and paid the approved maximum allowance to the salary from the year 2015 instead of reimbursement of the bills. Accordingly, a sum of Rs. 346,800 had been paid as communication fee for four officers during the year under review.	Actions will be taken to have a look and to investigated in future.	It should act in accordance with the provisions of the Circular.
b) Public Enterprises Circular No. 95 dated 14 June 1994	Although the approval of the Treasury or the Ministry of Public Administration for all the allowances with the approval of the Secretary to the relevant Ministry should be obtained, a total of Rs. 2,961,879 and Rs. 962,508 had been paid by the Management in the years 2018 and 2019 respectively as	The Institute had made continuous requests the approval from Treasury through the Line Ministry since 2015 .	-do-

weekend training
 school allowances,
 course coordinating
 allowances, project
 coordinating
 allowances,
 administrative
 secretary allowances
 and accountant
 allowances.

2. Financial Review

2.1 Financial Results

The result of operating process of the Institute received for the year under review was a deficit of Rs. 3,670,535 and the surplus as against in the preceding year was Rs. 830,605 . Accordingly, the operating deficit of the year under review as compared to the preceding year was Rs.4,501,140 . The increase in salaries and wages and other allowances by Rs.8,099,224 in the year under review as compared to the preceding year had mainly attributed to this.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
<p>(a) The excess funds of Rs.217,776,010 had been invested by the Management in short term deposits and an interest income of Rs.20,816,188 had been received for that. A sum of Rs. 31,705,545 saved from the various projects from the year 2015 was also included in the above amount. However, those funds had not been used effectively to achieve the main objectives of the Institute.</p>	<p>The amount received from the sale of vehicles and the money received for the construction of the building is to be returned to the Treasury with the approval of the Board of Management.</p>	<p>Effective funding should be used to achieve the main objectives of the organization</p>

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| <p>(b) Although it had been planned to conduct nearly 80 diploma and certificate courses in a year and also 09 years had elapsed after obtaining the registration, it was possible to take the National Vocational Qualification (NVQ) only for 6 courses.</p> | <p>It is seen that the national standards have not yet become very popular in the textile and apparel sector and if such a need arises, we will take actions immediately.</p> | <p>Actions should be taken to obtain National Vocational Qualification (NVQ) for the courses.</p> |
| <p>(c) The Institute had not taken steps by now to establish a Quality Management System (QMS) from the Tertiary and Vocational Education Commission.</p> | <p>The Management made aware of the Institute with regard to the conducting of courses required to establish QMS and necessary steps for that are being taken.</p> | <p>Arrangements should be made to install QMS.</p> |
| <p>(d) One of the objectives of the Act which established the Institute was to conduct postgraduate, graduate, and diploma level training programmes for those engaged in the garment industry. However, in considering the period from 2016 to 2019 only 10 per cent of undergraduate, graduate and diploma level training courses had been conducted out of the total number of courses.</p> | <p>The Management of the Institute is making arrangements to increase the number of degree courses considering the future needs.</p> | <p>Training programmes should be conducted at the postgraduate, graduate and diploma level for those engaged in the garment industry as per the objectives of the Act.</p> |

3.2 Procurement Management

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
<p>-----</p> <p>(a) Even though the renovation of the restaurant had been commenced in October 2017 at an estimated cost of Rs.6,411,515, the commencement of the contract had delayed up to 08 August 2019 . As a result of this time delay and extra works, the renovation works had been carried out by the contractor for a Rs.9,957,167 or a sum of Rs.3,545,652 more than the estimated cost. It had been decided to pay the additional cost in cash from the Institute without the approval of the Treasury.</p>	<p>-----</p> <p>Allocations has not been requested from the Treasury.</p>	<p>-----</p> <p>Procurement should be carried out in accordance with a proper plan.</p>
<p>(b) A sum of Rs. 9,695,000 had been provided by the Treasury on 30 October 2018 for the renovation of the conference hall and the engineering estimate for this was Rs. 8,813,830 . It had been decided to award the contract on 28 February 2019 for a sum of Rs. 12,391,395 and there was a delay of 21 days until 21 March 2019 to send the acceptance letter. Accordingly, it had not acted in accordance with Procurement Guidelines 8.7.1 (b) .</p>	<p>The procurement activities will be carried out in future as per the instructions.</p>	<p>Actions should be taken as per the Procurement Guidelines.</p>

(c) Even though it had been stated that the total cost estimate should be updated and approved considering the inflation and other factors if it takes a long time to invite bids after preparing the initial total cost estimate in terms of Procurement Guidelines 4.3.3 and 4.3.2, the Institute had not so acted. As a result, this contract had been awarded at a price of Rs. 3,577,565 which exceeded the engineering estimate and payments had been made in cash from the funds of the Institute without obtaining Treasury approval for those additional costs . Further, it was also observed that all the necessary professional and manpower efforts had not been utilized by the procurement entity to minimize variations as mentioned Supplementary 14 of the Procurement Guidelines

The procurement activities will be carried out in future as per the instructions.

Actions should be taken as per the instructions mentioned in the Procurement Guidelines.

3.3 Human Resources Management

 The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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<p>The approved cadre of the Institute was 140 at the end of the year under review and the actual cadre was 89 . Accordingly, the number of vacancies were 51 .</p>	<p>This has been directed to the Department of Management for approval.</p>	<p>Employees should be recruited for vacancies.</p>

4. Accounting and Good Governance

4.1 Annual Action Plan

The main functions of the Institute are to provide services such as training, investigating and consulting of persons for the textile and apparel related productions and the following observations are made regarding the performance of those functions.

Audit Observation	Comments of the Management	Recommendation
<p>-----</p> <p>Even though a number of 141 training courses had been planned as per the Action Plan for the year 2019, only 55 courses had been implemented as per the monthly training programme plan. It was only 39 per cent out of the expected number of courses. In addition to that, 88 training courses on-demand of clients and 28 courses under projects implemented on allocations received from the Ministry had been carried out during the year under review.</p>	<p>-----</p> <p>Demand for the courses is created as applicable to products manufactured in the field in each instances. Further, training requirements also vary from client to client</p>	<p>-----</p> <p>Courses should be conducted as per the Action Plan.</p>