

## **Sri Lanka Institute of Textile and Apparel - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Sri Lanka Institute of Textile and Apparel for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 Finance Act, No. 38 of 1971. My comments and observations which I consider should be reported 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 financial statements of the Institute give a true and fair view of the financial position as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### **1.2 Basis for Qualified Opinion**

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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**

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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 determines 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 matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Institute 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 of the Institute.

#### 1.4 Scope of Audit (Auditor's Responsibility for the Audit of Financial Statements)

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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 scepticism 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 the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, 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 Institute 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 Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Audit Observations on the Preparation of Financial Statements**

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### **1.5.1 Internal Control over the preparation of Financial Statements**

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The Institute is 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**

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The following non-compliances were observed.

<b>Non-compliance with reference to the relevant Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) In terms of Section 9 of Sri Lanka Public Sector Accounting Standard 2, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months. However, a sum of Rs.4,777,943 invested for a period of one year, had been recognized as cash equivalents. Further, in terms of Section 40 of the said Standard, a sum of Rs.22,159,341 received as interest on investments had not been disclosed separately as a cash flow.	Action will be taken to indicate it accurately in the cash flow statement in the ensuing year.	Action should be taken in terms of the Sri Lanka Public Sector Accounting Standard relating to cash flows.

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| (b) | Even though a sum of Rs.5,018,434 had been indicated in the financial statements as the nominal value of lands belonging to the Institute, in terms of Section 42 of Accounting Standard 7, those lands had not been revalued and fair values thereof had not been included in the financial statements.  | Requests for revaluation had been made to the Valuation Department and action will be taken to include the fair value in the financial statements after receiving the said report. | The fair value of those lands should be indicated in the financial statements.  |
| (c) | Even though property, plant and equipment costing Rs.204,839,496, fully depreciated as at the end of the year under review, had still been in use in terms of Sri Lanka Public Sector Accounting Standard 7, it had not been disclosed in the financial statements. Moreover, action in terms of SLPSAS 3 had not been taken to review the estimated error on useful life of those assets and to adjust them in the financial statements. | The revaluation report has not been received so far and it will be submitted soon after receiving.   | When fully depreciated assets are used, it should be disclosed in the financial statements and action in terms of the Standard should be taken to review the estimated error on useful life of those assets and to adjust them in the financial statements. |

### 1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
Even though the interest income on fixed deposit investment (call deposit), receivable as at 31 December 2020 had been Rs.9,195,787, it had been indicated as Rs.7,341,295 in the financial statements, thus understating the interest income of the year in the financial statements by Rs.1,854,492.	Action will be taken to rectify it in the preparation of accounts of the year 2021.	Interest income for the year should be indicated accurately in the financial statements.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The balance receivable as at 31 December 2020 comprised of a sum of Rs. 948,156 recoverable from 42 debtors for over a period of 05 years and a sum of Rs.3,757,350 recoverable from 35 debtors for a period between 3 and 5 years and adequate measures had not been taken to recover those balances.	Reports of debtors will be submitted to relevant divisions and reminders as well have been sent to debtors.	Proper attention should be paid for the recovery of debtors balances.
(b) Even though services on testing of apparel samples valued at Rs. 4,306,291 had been provided to the Ministry of Industry and Commerce, the said amount had not been recovered even by November 2021.	It has been informed through letters on several occasions and a letter has been sent even on 30 November 2021.	Action should be taken to recover loan balances.

### 1.6.2 Payables

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The sum of Rs.3,871,448 received from selling 05 motor vehicles used in the year 2015 should be remitted to the Treasury in terms of Assets Management Circular No.01 of 19 March 2018. However, the said balance had been indicated under sundry creditors even during the year under review.	The sum received from selling motor vehicles is due to be returned to the General Treasury with the approval of the Board of Governors.	Sums received from selling motor vehicles should be remitted to the Treasury.

## 1.7 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

The following non-compliances were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliance  Rs.	Comments of the Management	Recommendation
(a) Public Enterprises Circular No.95 of 14 June 1994 and Public Finance Circular No.PF/PE 5 of 11 January 2000	(i) Approval of the General Treasury should be obtained for all allowances paid to employees by the Institute. However, such an approval had not been obtained for allowances totalling Rs.1,555,032 paid in the year under review, such as employees' allowances for laboratory tests and weekend courses, consultants' allowance, fees for coordinating courses etc.	The Institute has sought the approval of the General Treasury through the Line Ministry continuously from the year 2015. Letters dated 04.08.2020 and 03.09.2020 have been referred for seeking approval of the Secretary to the Ministry relating to said allowances. Further, a discussion was held with the National Salaries Commission on 07 December 2021 and necessary measures will be taken soon after receiving that report.	Approval of the General Treasury should be obtained for all payments made to employees.
	(ii) A sum of Rs.360,562 as an annual premium for employee medical insurance and a sum of Rs.1,276,211 for the reimbursement of medical bills had been paid during the year without the approval of the General Treasury.	Approval of the Board of Governors has been obtained for the employee medical insurance.	Approval of the General Treasury should be obtained for all payments made to employees.
(b) Paragraph 2 of Public Enterprises Circular No. PED/2/2015 of 25 May 2015	Even though communication bills should have been reimbursed subject to the maximum limit, the	Action has been taken to reimburse bills from December 2020 and to make payments and further action will be	Action should be taken in terms of circulars.

Institute had made payments by adding allowances to the salary up to the maximum, instead of reimbursement of bills. As such, the sum of Rs.346,800 overpaid in the year 2019, had not been reimbursed even in the year under review. However, the said procedure had been followed even up to December of the year under review.

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| (c) | Circular No.05/2008 of 06 February 2008 of the Ministry of Public Administration and Management, revised by the Circular No.05/2018/(1) of 24 January 2018 | A Citizens' / Clients' Charter had not been prepared. | Action will be taken to prepare the Citizens' / Clients' Charter by carrying out studies further thereon. | A Citizens' / Clients' Charter should be prepared in terms of circulars. |
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**2. Financial Review**  
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**2.1 Financial Results**  
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The operations of the year under review resulted in a surplus of Rs.1,455,408 as compared with the corresponding surplus of Rs.19,345,190 of the preceding year, thus observing a decline in the financial result by Rs.17,889,782. The decrease in the income from training and supply of consultation services by Rs.52,091,255 had mainly attributed to this decline.

**3. Operating Review**  
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**3.1 Management Inefficiencies**  
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Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) In terms of Section 12 of the Sri Lanka Institute of Textile and	It is proposed to obtain approval for the 5 per cent	Approval of the Board of Directors should be

Apparel Act, No.12 of 2009, a Staff Development Fund may be established for the purpose of improving the skills and knowledge of the staff of the Institute. There shall be paid annually into the Staff Development Fund, such percentage of the income received by the Institute for the relevant year. However, 0.5 per cent on debtors' receipts relating to the year 2020 had been credited to the Fund without approval of the Board.

- (b) According to the Cabinet approval received in the year 2015, an expenditure of Rs.3,762,600.00 had been incurred for various activities which should be carried out before inviting bids for constructing a new four storied building. Nevertheless, the total expenditure incurred had become fruitless due to the decision taken to discontinue constructions as a result of difficulties in obtaining provision.
- Cabinet approval had been received in the year 2015 for constructing a fully complete building which is an essential factor for the Institute of Textile and Apparel on provision made by the Institute and the General Treasury. An expenditure of Rs.3,631,958.00 had been incurred so far by the Institute for various activities which should be carried out before inviting bids. However, a difficulty in arranging the financial provision thereof by the Institute or the General Treasury arose due to the Covid pandemic which affected the world in the year 2020. Taking all aforementioned matters into consideration, the Cabinet approved Procurement Committee had decided against carrying out constructions.
- In proposals relating to constructions, expenditure on commencement activities should be incurred only after obtaining approval for making provision.



### 3.2 Operating Inefficiencies

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 The following matters were observed.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) In terms of Section 5 (c) of the Sri Lanka Institute of Textile and Apparel Act, No.12 of 2009, Degrees and Postgraduate Degrees relating to the textile and apparel industry should be awarded by entering into agreements with local and foreign universities and institutions. However, the said activities had been carried out only with a private Indian University.	Arrangements are being made to award Degrees in Leather & Footwear and Textile & Apparel in collaboration with two Indian Higher Education Institutions approved by the University Grants Commission. Moreover, it is being considered to award the Degree in B. Tech in collaboration with the University of Sri Jayewardenepura and basic steps necessary for awarding a Degree in collaboration with the University of Vocational Technology of Sri Lanka (UNIVOTEC), have been taken.	The Institute should take action to achieve objectives of the incorporated Act.
(b) In terms of Section 4 (i) of the Sri Lanka Institute of Textile and Apparel Act, No.12 of 2009, a data base containing information relating to the production, import and export and other technical information relating to the textile and apparel industry should be maintained. However, action had not been so taken.	It is required to incur a cost for recruitment of a separate staff and for establishment of a system for maintaining a data base and this matter will be taken into consideration.	The Institute should take action to achieve objectives of the incorporated Act.
(c) A machine valued at Rs.2,237,112 had been purchased for testing the quality of apparels by the Healthy and Safety Project implemented on provisions of the Ministry.	This is a project implemented on Cabinet approval. Action was taken to brief the Ministry of Health, schools and factories on this project and	Necessary legal provisions on the quality of raw materials should be made.

However, approval for action was taken to issue necessary legal provisions for certificates free of charge for 05 factories at the initial stage. Issuing a certificate on the quality of raw materials using the said machine, had not been obtained in the year under review.

**4. Accountability and Good Governance**

**4.1 Tabling of Annual Report in Parliament**

Audit Observation	Comments of the Management	Recommendation
<p>In terms of Section 16 of the Sri Lanka Institute of Textile and Apparel Act, No.12 of 2009, the Institute shall, at the end of each financial year, publish a report of its activities during that year and lay before Parliament on being approved by the Minister. However, the Institute had failed to table the said report relating to the year 2019 in Parliament.</p>	<p>It has been planned to submit the Annual Report of the year 2019 by the end of January 2022.</p>	<p>Action should be taken in terms of provisions of the Act.</p>

**4.2 Annual Action Plan**

Audit Observation	Comments of the Management	Recommendation
<p>In terms of Sri Lanka Institute of Textile and Apparel Act, No.12 of 2009, ten objectives of establishment of the Institute have been cited and the Action Plan of the Institute should be prepared in a manner of achieving those objectives. Nevertheless, only conducting of courses had been included therein.</p>	<p>Comments have not been made on preparing the Action Plan of the Institute in a manner of achieving the objectives.</p>	<p>The Action Plan of the Institute should be prepared in a manner of achieving the objectives.</p>