

Sri Lanka Institute of Textile & Apparels - 2021

1. Financial Statements

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 2021 comprising the statement of financial position as at 31 December 2021 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 accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2021, 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

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 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, as applicable, 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 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 evidences 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

1.5.1 Internal Control over the preparation of Financial Statements

The 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

Non-compliance with reference to the relevant Standard -----	Management Comments -----	Recommendation -----
(a) The property, plant and equipment with a cost of Rs.220,653,126, which had been fully depreciated at the end of the year under review, were still in use but it was not disclosed in the financial statements. Also, in terms of S .L. P. S. A. S. 03, actions had not been taken to review the estimation error of economic useful lives of	Although, reminders had been sent to relevant officers for a prolonged period, to get the valuation report of the Institute, the report had been delayed. Actions will be taken to make these adjustments.	In terms of S. L. P. S. A. S. No.03, actions should be taken to review the estimation error regarding the useful lives of these assets again and to make adjustments in the financial statements.

these assets and to adjust in the financial statements.

(b) Even though, as per Sri Lanka Public Sector Accounting Standards 02, only, payments received and made in cash during the accounting year, should be included in the Cash Flow Statement, Rs.9,900,000 received for a project in the previous year, had been included in the Cash Flow Statement as a cash flow from Financial Activities and a provision for Gratuity for the year, which should have been adjusted to Operating Activities, had been included under Changes in Working Capital and instead of showing separately, the receipts and payments in respect of other projects, the difference between the balances of the year under review and the balances of the previous year, had been adjusted as a cash flow from Financial Activities, for the year under review.

(c) Although, in terms of Sri Lanka Public Sector Accounting Standard No. 15, an entity should disclose the approved Budget Document, the basis for budgeting, and the basis of classification followed in the notes to the financial statements, the information related to the Budget Document for the year under review had not been disclosed in the notes to the financial statements.

A sum of Rs.9,900,000 received in the year 2020 for a capital project, had been accounted as a revenue project and accordingly, it had been recorded in the cash received for special projects, in the cash flow statement for that year. The erroneous accounting of capital grant was corrected in the year 2021 and had been shown as Capital Grant Error Correction as a cash flow from Financial Activities in the Cash Flow Statement for the year 2021.

The provision for Gratuity had been presented under the Changes in Working Capital in the Cash Flow Statement.

Actions will be taken to include information related to the Budget Document in the financial statements prepared in the future, in accordance with Public Sector Accounting Standard No. 15.

In terms of Sri Lanka Public Sector Accounting Standards 02, only payments received and made in cash during the accounting year should be included in the Cash Flow Statement.

In terms of Sri Lanka Public Sector Accounting Standard No. 15, an entity should disclose the approved Budget Document, the basis for budgeting, and the basis of classification followed in the notes to the financial statements.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Public Enterprise Circular No. 95 of 14 June 1994 and Public Finance Circular No.PF/PE 05 dated 11 January 2000.	(i) Approval had not been obtained from the Treasury for the sum of Rs.11,246,760 which had been paid in the year under review for allowances such as Laboratory Testing Allowances, Staff Allowances for Weekend Courses, Consultancy Allowances and Course Coordination Fees, although an institution should obtain approval from the Treasury for all allowances paid to the employees.	A report has been submitted to the National Salary Commission through the Ministry, presenting the information with regard to the discussion held with the National Salary Commission on 07 December 2021. It has been planned to take necessary actions after receiving a response letter to it.	Should act according to the instructions of the Circulars.
	(ii) A premium of Rs.1,475,953 had been paid for the Insurance intended to cover medical bills of the employees of the Institute and a sum of Rs.1,674,573 had been paid as reimbursement of medical bills, in the year under review, without obtaining an approval from the Treasury.	It was informed that the approval of the governing body had been obtained for the medical insurance and reimbursement of medical bills.	Should act according to the instructions of the Circulars.
(b) Paragraph 02 of the Assets Management Circular No. 04/2008 of 31 December 2018	Even though, accurate information on all non-financial assets, should be reported to the Comptroller General's Office by all government institutions, information relating to the Infrastructure, Machinery and Equipment amounting to Rs.471,325,349 as at 31 December in the year under review, had not been reported.	Since the updated Asset Report on these assets has not yet been completed, the correct information about the assets will be provided to that office, after receiving that report.	Should act according to the instructions of the Circulars.

- (c) Sub Section 08 of the Public Contract Act No. 03 of 1987
- Although, when evaluating bids, it is required to consider the registration of tenderers under this Act, at the time of submitting bids for contracts above Rs. 5 million, this had not been done.
- The Procurement Guidelines published by the Government are being followed by the Technical Committees when evaluating bids. Therefore, it does not specify tenderers to be registered as per sub section 08 of the Public Contract Act No. 03 of 1987. Thus, the Technical Committees have not considered this so far, in evaluating bids.
- Actions should be carried out in compliance with instructions imposed by the government.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs.13,031,502 and the corresponding deficit in the preceding year amounted to Rs.21,654,813 therefore an improvement amounting to Rs. 34,686,315 of the financial results was observed. The reasons for the improvement are the increase in revenue from inspection, training and technical services and the decrease in repair and maintenance expenses.

3. Operating review

3.1 Management Inefficiencies

Audit Observation

- (a) A sum of Rs.1,252,900, which should have been charged for the delay period in the contract, as per the Clause 49.1 of the Contract for the Renovation of Sewing Shed carried out under the Classroom Space Improving Project, had not been recovered from the client. The validity of the Performance

Management Comments

The contract period had been extended up to the third week of July 2021, with the approval from the governing body and the completion of its work had taken place at the end of July. Although, the Contractor had been informed verbally as well as in writing to extend the validity period of the Performance Bond, he had not

Recommendation

Should act according to the regulations of the Contract Agreement.

Bond had expired on 28 February 2022 even though the Contract Completion Certificate had not been received at least by the 30 June 2022.

taken steps to extend it. However, the Institute has held a retention of 5 percent, which will be paid after one year from the certified handing over date.

- (b) Sufficient actions had not been taken to recover the debtor balance of Rs.4,735,969, which had been over 03 years from the last date of the year under review.

Reminder letters have been sent constantly to the relevant debtors to pay amounts. But the repayments of debtors who are more than three years, are not in a positive status.

Sufficient actions should be taken to recover debtor balances.

3.2 Operating Inefficiencies

Audit Observation

- (a) In terms of the Section 5(c) of the Textile & Apparel Institute Act No. 12 of 2009, although, the Institute should maintain relationship with local & foreign universities and institutes to award degrees and post-graduate degrees related to the textile and apparel fields, only a preliminary memorandum of understanding had been prepared with the University of Vocational Technology Sri Lanka (Univotec) as at the audited date 10 June 2022.

Management Comments

Two degree courses will be started by the month of August and in addition, even though few steps had taken to award B. Tech Degree, in association with the University of Sri Jayewardenepura, the cost to be incurred seemed to be not affordable for the Institute, when the cost is concerned. However, as there is a high demand for this Degree, it is expected to consider about it and take actions in the future.

Recommendation

Actions should be taken to fulfill objectives stated in the Act.

- (b) As per the section 4(i) of the above Act, even though, the Institute should maintain a data base containing information relating to the production, import and export and other technical information relating to the textile and apparel industry, the Institute has not

The institute should incur costs in collecting, maintaining and analyzing data to maintain a data source because, it requires a separate staff, financial costs for installing a system. But this will be considered in the future.

Actions should be taken to fulfill functions in the Act

maintained a database including fully integrated data.

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| (c) Although, the power of certification has been vested on the Institute, by the Cabinet Paper No. CP/17/2707/723/050, making it a mandatory requirement to provide health and safety certificates for locally produced and imported textile & apparels products entering into the local market, the health and safety of the garments available in the market has not been certified due to further actions had not been taken | This was a project implemented under the Cabinet Approval. The activities of this project requires a substantial amount to be spent on assuring the health and safety. A report has been sent requesting financial provisions to carry out necessary actions in this regard but a positive reply has not been received for that. The relevant future actions will be carried out if; required provisions are received. | The health and safety of the garments should be ensured. |
| (d) Due to the delay in the receipt of provisions, the physical progress had been in between 25 percent to 30 percent of the 3 projects, in the range of Rs. 2 million to Rs. 3 million, which had been planned to implement in the year under review. | Rs. 75 million out of Rs. 100 million of the capital receipts relating to the projects planned for the year, was remitted by the Treasury in the month of December 2021. Therefore, as many projects were commenced simultaneously, the physical progress of about 03 projects were between 25 percent and 30 percent. | Actions should be taken to request for provisions enabling the completion of projects. |