

## **Performance of the Textile Quota Board for the year 2002**

### **(1) Introduction**

The Apparel Export Industry from its modest beginning in the 1970's has emerged as the country's leading foreign exchange earner accounting for approximately 50% of the total industry exports from Sri Lanka for the year 2001, generating direct and indirect employment for approximately one million people.

The phenomenal growth and development in the past two decades was primarily due to the quota system under Bi-lateral Trading Agreements of the Multi Fibre Agreement. The Multi Fibre Agreement (MFA) introduced a quota system for the export of Textiles and Apparel Products to developed countries mainly to USA, EU and Canada. The quota system provided a protective umbrella for developing countries such as Sri Lanka, which assured market access to the huge markets of US and EU which otherwise may not have been accessible to the developing countries. The Bi-lateral Agreement with USA, Canada and European Union cover a wide range of Textiles and Textile Products and restrict Sri Lanka exports to certain agreed quantitative levels. In respect of some of these products, or some other products no limits are set, the exports are regulated under an export authorization system for surveillance purpose.

The USA has the widest umbrella of restrictions covering 28 textiles and textile products. The European Union which is the 2<sup>nd</sup> largest market for Sri Lankan Apparel Products had until 2001 placed restriction on 04 categories. These quota restrictions have been removed by the EU and these categories are under surveillance at present. Canada has restrained 11 categories of textiles and textile products.

Under Bi-lateral Agreements the restraint limits for a particular category in particular restraint period is apportioned and distributed among the qualified exporters in the form of textile quota.

The first scheme for the management, allocation and distribution of all export quotas approved by the then Minister of Handlooms and Textile Industries came into effect with effect from 1<sup>st</sup> July 1992. This scheme has been formulated by the officials of the government and the industry representatives.

### **(2) Establishment of Textile Quota Board**

In order to manage and administer the scheme for the management, allocation and distribution of quota, the Minister in charge of Textile sector has established in the same year the Textile Quota Board (TQB) by way of rules issued in the exercise of his powers as such Minister. The TQB so established consisted of 10 members appointed by the Minister.

The TQB was entrusted with the responsibility of management and distribution of quotas and was made the sole authority for the distribution and

allocation of quotas throughout the country, subject to the control and general direction of the Minister. The TQB was required to manage and administer the scheme in a transparent manner and in conformity with the policies of the Government. All quota allocations since 1992 have been made by the Textile Quota Board in accordance with the scheme approved by the Minister of Handlooms and Textile Industries. This scheme has been revised from time to time with the approval of the Minister.

The textile Quota Board that has been established in the year 1992 by way of rules issued by the Minister did not have legal status and as such the implementations of the scheme was found to be difficult in the absence of the force of the law.

In the year 1994, the then Minister of Industrial Development appointed a Committee consisting of representatives of the Apparel Industry Associations and the BOI under the Chairmanship of an Additional Secretary of the Ministry of Industrial Development to continue with the management and distribution of textile quotas.

In order to further streamline the procedure on the allocation of textile quota, the Minister has appointed a Committee consisting of the representatives of the Ministry of Finance, the BOI, the EDB, the Department of Customs, the Ministry of Industrial Development to, inter alia review the composition, role and function of the TQB and make recommendations. This Committee recommended that the TQB should be constituted as a statutory body under an act of parliament in order to give it the necessary legal recognition and also to facilitate the management of textile quotas without discriminatory or preferential treatment, following transparent procedures. Accordingly the Textile Quota Board was established as a statutory body by Act No. 33 of 1996 which came into effect on 01/01/1997.

The Board shall consist of 05 ex-officio members and 05 representatives of Apparel Associations.

The object of the Board was;

- a) to formulate an appropriate scheme or schemes for the management, distribution, utilization and allocation of export quotas of textiles and textile products
- b) to advise the Minister regarding the implementation of schemes formulated under para (a) above and any other matters that may be referred to it by the Minister for its advice.

The act stipulates inter alia the powers, duties, functions of the Board, power to vary, suspend or cancel export quota and provide for capital of the Board, the office of the Director General, Staff of the Board and any other matters incidental to the operation of the Board.

The act specifically provides in section 18 that the Board shall in the exercise of its powers, performance of its duties and the discharge of its functions be subject to an act in accordance with such general or special directions as the Minister may from time to time issue in writing.

The Textile Quota allocations are currently being made in accordance with the scheme approved by the Minister of Enterprise Development Industrial Policy and Investment Promotion under section 04 of the Textile Quota Board Act No. 33 of 1996 for the management, distribution, utilization and allocation of export quotas of textiles and textile products.

Since inception TQB has recognized the need to obtain industry representation in the decision making process and to follow the transparent procedures. These two objectives have been achieved by appointing five industry representatives to the Board and making available all the information regarding management of textile quota to the industry.

### **(3) The Scheme of Allocation**

The over riding objective of the scheme was to maintain the growth and stability of the apparel export industry, encouragement of non-quota exports achieving excellency in export performance, increasing utilization of locally produced raw material and maximum utilization of textile quotas available to the country.

#### **3.1 Eligibility to receive Textile Quotas**

A manufacturer of textiles and textile products registered as an exporter with the BOI or with the Ministry of Industrial Development is eligible to receive textile quotas or apply for textile quotas.

#### **3.2 Policy of Allocation**

- (a) In order to ensure continuity for an exporter, quotas will be allocated primarily on the basis of past export performance. This means that quota have to be earned and re-earned by export performance. Allocation on the basis of past export performance will be referred to as "performance quota".
- (b) Approximately 3% of the quota available in an year will be reserved for Small Scale Manufacturing Units. A Small Scale Manufacturing Unit is an Unit which employs 200 or less employees and issues quota holding in all fast moving categories taken together is 4000 dzs. or less
- (c) Approximately 25% of the quota that will be available in an year on account of growth and increase in flexibilities will be allocated to exporters who have exported to non-restrained markets.

- (d) Any quota balances remaining after allocation on the basis of 1, 2, 3 and above will be put to a Common Pool an allocated as described in paragraph 10 of the rule book.

**(4) Stages of Allocation**

The allocations made in terms of the scheme referred to above have been made in stages given below :

**4.1 Stage 1 – Cold Category Pool Quota Scheme (CCPQ)**

This scheme is to make available quotas early in those categories which were substantially under utilized in the preceding year. This scheme will commence at the beginning of the year. The TQB will declare the cold categories at least one month before the commencement of the year. The application for these quotas are invited through a paper advertisement. Allocation is on the basis of per employee rate.

**4.2 Stage 2 – Preliminary Allocation of Main Quota / Performance Quota**

A Preliminary allocation of the performance quota will be made on the basis of exports during the first 10 months of the preceding year. Generally these allocations will be made at least 04 weeks before the commencement of the year.

**4.3 Stage 3 – Final Allocation of Main Quota / Performance Quota**

After verification of the performance figures, a final quota allocation will be made, generally in the second month of the year. This allocation will supersede the preliminary allocation.

**4.4 Stage 4 – Small Scale Manufacturing Units Scheme**

Approximately 3% of the quota available in an year will be reserved for Small Scale Manufacturing Units which employs 200 or less employees and whose quota holding in all fast moving categories taken together is 4,000 dzs or less

**(5) Pool Quota Schemes**

Pool quota schemes whilst contributing to optimum utilization of quota will provide further opportunities for exporters avail themselves of additional quota and for newcomers.

**5.1 Cold Category Pool Quota Scheme**

As described above

## **5.2 Main Pool Quota Scheme**

This scheme commence immediately after the final allocation of performance quota and granting of credit against performance of pool quotas in the preceding year before 31<sup>st</sup> March. Allocation will be primarily on the basis of number of employees.

## **5.3 Special Pool Quota Schemes**

Special Pool Quota Scheme are also introduced as and when necessary in order to increase utilization . Under this scheme quotas will be allocated on a first-come-first served basis. The TQB will fix a maximum quantity that will be allocated to an exporter in each category.

## **(6) Review of Operations**

The primary functions of the TQB is to allocate quota to registered exporters in terms of the procedure described above.

In order to facilitate and efficiently manage the schemes of allocations the TQB computerized its quota management functions in the year 1994/95. The wide area network introduced for these operations consisted of three mini computers each installed at the office of the TQB and offices of the BOI in Colombo and Katunayake. The computer located at the TQB is linked to the service centre of the Ministry and BOI office at Biyagama. The software solution was provided by Open Arc with whom TQB has entered into an agreement for maintenance of software since commencement of computer operations.

Several modifications to the software systems were made during the year 2002 in order to facilitate the new transfer of quota procedure and also to make available quota allocation details to the Industry Associations.

During the period under review 23 meeting of the Board were held. The details of all quota allocations and utilizations were submitted at every Board Meeting.

The highlights of the operations of the TQB during the period under review are as follows :

### **6.1 Electronic Visa Information System (ELVIS)**

In terms of the Bi-lateral Agreement between Sri Lanka and USA regarding export of textile and textiles product, each shipment to USA should be accompanied by a textile visa to enable the importer to clear the goods through US Customs. Prior to 1999 paper visa issued to exporters through service centres of the Board of Investment and the Textile Division of the Ministry. In order to counter the problem of export of textile and textiles products using counterfeit visas TQB has

commenced transmitting of visa details electronically to the Electronic Visa Information System of US Customs. The implementation of ELVIS system involved development of necessary computer software acquisition of some computer hardware and selection of an international network for transmission. After the introduction of ELVIS system since November 1999 TQB has been able to eradicate completely the fraudulent exports of textile and textiles products using counterfeit visas. The ELVIS system continued through out the year 2002 as well successfully.

## **6.2 Agreement between the European Commission and Textile Quota Board on Electronic Exchange of Licensing Information**

It was agreed between two parties described above that in order to combat fraud and more efficiently manage the Bi-lateral Agreement between the two parties the introduction of Electronic Exchange Licensing Information would be necessary. Prior to 2001 the clearance of textile and textiles product that had been exported to EU countries were being made on the basis of an export license issued by the service centres of the BOI and the Textile Division of the Ministry.

The transmission of export licence details to the SIGL system in the European Union commenced September 2001. In order to facilitate the scheme EU has provided training opportunity of one week for three members of the TQB staff during May 2002. The European Commission has also donated two personal computers to be used for electronic exchange of export licensing information.

## **6.3 Releasing of information to Apparel Industry Associations**

Since inception TQB has been making available details of all quota allocations and other statistics to the members of the Board periodically at the meetings of the Board. Since last year in order to ensure 100% transparency TQB made available the under-mentioned information to the Industry Associations.

- (1) Performance by category and factory wise for the entire year
- (2) Details of allocations by category and factory wise for the year
- (3) Permanent transfer/exchange between factories monthly
- (4) Exchange of quotas with the TQB monthly
- (5) Temporary transfers "in" and "out" by factory and category wise monthly
- (6) Visa issued against transferred quotas monthly
- (7) Visa issued by factory wise and category wise, new issues to factory monthly.

The industry expressed its appreciation of this move which established total transparency on the subject.

#### **6.4 Temporary Quota Transfer Procedure**

With effect from 05/02/2003, the TQB has introduced a new quota transfer procedure as requested by the Industry Associations. The new procedure is very much cost effective and much less tedious in terms of documentation, in that an exporter could use any part of the total available quantity during the quota year, thus requiring only one set of documents for single shipment. Under the new procedure the transferred in quota will be combined with the Main Quota of the transferee and could be utilized through out the quota year along with the pool quotas and any other transferred in quota obtained by the transferee. The export of the transferee will be first debited against transferred quota irrespective of the date of the transfer the debiting against main quota, pool quota covered by the bank guarantee and other pool quotas will commence only after the transferred in quota has been exhausted. Under the new procedure the quota transfers which and hitherto been carried out by the service centres of the BOI and the Ministry was taken over by the Head Office of the TQB.

#### **6.5 05 Year Strategy for the Apparel Sector**

Ministry has appointed a task force comprising of representatives from the private sector as well as the government with a view to preparing the 5 year strategy for making the apparel industry globally competitive in the post MFA era. The task force included the Chairman, Director General of the TQB. The strategy plan prepared by the task force addressed the short, medium and long term needs to reengineer the industry to survive in the post MFA era and enhance its export and employment potential. The measures proposed in this plan included:-

- (1) Transforming the industry from the manufacturer to provider of a fully interrogated service providing
- (2) Increasing market trade to the premium market segment of the global market industry
- (3) Becoming international famous as a superior manufacturers of special product categories
- (4) Infusion of modern technology and clustering of service, building of links between small and large industry

#### **6.6 Amendment of the scheme for the management, distribution, utilization and allocation of export quotas of textile and textiles products (TQB Rule Book)**

In order to streamline further, the quota allocations procedure of the above scheme was amended in the year 2002. The changes of the scheme were as follows :

- (1) Reservation of quotas for resuscitation of sick factories
- (2) Changes in the surrender scheme

- (3) New quota transfer procedure
- (4) Elimination of requirement to register the sub contracts with the TQB

**6.7 Allocation of pool quota through E-mail / Lottery system**

Allocations of pool quota in certain hot categories have been made primarily on first come first served basis. In order to determine the priority, E-mail application system have been introduced in the year 2001. There were several drawbacks in the system mainly due to those having advanced technology being able to send the e-mail application before the others. In order to eliminate the problems associated with this system the Board introduced a lottery system recently and the industry has expressed satisfaction of the operation of this system.

**6.8 Financial Informations**

TQB does not depend on government budget and generate its own funds to meet its expenditure. The main source of revenue was funds generated from forfeiture of bank guarantees, interest on savings and collection of ELVIS transmission fee.

The Income and Expenditure statement for the year 2002 shows a surplus of Rs. 12.2 million.

**(7) Statistical Data**

The following statistical data are presented.

- (1) Details of restrained limits and categories of USA and Canada Markets for the year 2002
- (2) Utilization summary for the year 2002 for USA and Canada quota

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 Roy Jayasinghe  
 Chairman

<b>Utilization Summary - Quota Year 2002</b>					
<b>USA</b>					
<b>Category</b>	<b>Approved Adjusted Limit-2002</b>	<b>Utilization</b>			
		<b>Visas issued in 2002</b>	<b>Overshipmets in 2001</b>	<b>Total Utilization</b>	<b>Percentage</b>
237	287,065	26,058	-	26,058	9
314	6,272,349	292,960	-	292,960	5
331/631	1,188,599	485,573	-	485,573	41
333/633	28,178	1,283	-	1,283	5
334/634	1,332,102	1,184,732	-	1,184,732	89
335	274,501	166,886	-	166,886	61
336/636	709,167	709,167	-	709,167	100
338/339	2,373,506	2,227,924	202,981	2,430,905	102
340/640	1,942,683	1,337,058	-	1,337,058	69
341/641	3,339,264	1,933,066	-	1,933,066	58
341	2,226,176	1,359,954	-	1,359,954	61
641	1,113,088	573,112	-	573,112	51
342/642	1,122,967	1,086,770	-	1,086,770	97
345/845	289,737	232,092	26,674	258,766	89
347/348	2,211,880	2,074,948	271,390	2,346,338	106
351/651	608,745	608,745	-	608,745	100
352/652	2,110,944	2,036,838	74,106	2,110,944	100
359-C/659-C	1,694,184	425,072	-	425,072	25

<b>360</b>	<b>1,327,477</b>	718,020	-	718,020	<b>54</b>
<b>363</b>	<b>21,656,745</b>	9,881,128	-	9,881,128	<b>46</b>
<b>369-S</b>	<b>1,054,864</b>	922,105	-	922,105	<b>87</b>
<b>434</b>	<b>9,068</b>	1,255	-	1,255	<b>14</b>
<b>435</b>	<b>19,432</b>	11,435	-	11,435	<b>59</b>
<b>440</b>	<b>9,638</b>	2,108	-	2,108	<b>22</b>
<b>611</b>	<b>3,474,240</b>	177,959	-	177,959	<b>5</b>
<b>635</b>	<b>728,219</b>	552,026	-	552,026	<b>76</b>
<b>638/639</b>	<b>1,603,686</b>	993,521	-	993,521	<b>62</b>
<b>644</b>	<b>952,654</b>	656,547	-	656,547	<b>69</b>
<b>645/646</b>	<b>229,079</b>	58,836	-	58,836	<b>26</b>
<b>647/648</b>	<b>1,497,308</b>	1,385,926	111,382	1,497,308	<b>100</b>
<b>CANADA</b>					
<b>Category</b>	<b>Proposed</b>	<b>Utilization</b>			
	<b>Adjusted</b>	<b>Licences</b>	<b>Overshipmets</b>	<b>Total</b>	<b>Percentage</b>
	<b>Limit-2002</b>	<b>issued</b>	<b>in 2001</b>	<b>Utilization</b>	
		<b>in 2002</b>			
01	<b>1,879,597</b>	679,433		679,433	<b>36</b>
01A	<b>212,201</b>	12,313		12,313	<b>6</b>
02	<b>445,619</b>	284,122		284,122	<b>64</b>
<sup>3</sup> / <sub>4</sub>	<b>1,495,173</b>	233,369		233,369	<b>16</b>
03/04A	<b>23,908</b>	8,288		8,288	<b>35</b>
05	<b>1,543,183</b>	1,489,720	139,252	1,628,972	<b>106</b>
07/08	<b>2,689,193</b>	271,614		271,614	<b>10</b>
09	<b>2,106,838</b>	1,245,924		1,245,924	<b>59</b>
10	<b>1,178,882</b>	135,067		135,067	<b>11</b>
11	<b>561,258</b>	133,255		133,255	<b>24</b>

41A	1,227,258	696	696	0
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**BALANCE SHEET AS AT 31ST DECEMBER  
2002**

<b>ASSETS</b>	<b>31.12.2002 Rs.</b>	<b>31.12.2001 Rs.</b>
<b><u>Non - Current Assets</u></b>		
Fixed Assets	<b>1,485,371.79</b>	5,282,381.65
Investment in Treasury Bills	<b>48,336,453.93</b>	42,267,863.80
Investment in Treasury Deposits	<b>13,000,000.00</b>	13,024,193.35
	<b>62,821,825.72</b>	<b>60,574,438.80</b>
<b><u>Current Assets</u></b>		
Staff Loans	<b>3,396,202.00</b>	2,636,723.36
Accounts Receivables	<b>12,722,423.10</b>	23,396,072.11
Cash in Transit	<b>101,640.00</b>	301,062.37
Cash at Bank	<b>22,997,369.47</b>	13,626,738.92
	<b>39,217,634.57</b>	<b>39,960,596.76</b>
<b>Total Assets</b>	<b>102,039,460.29</b>	<b>100,535,035.56</b>
<b>EQUITY AND LIABILITIES</b>		
		<b>RS.</b>
<b><u>Capital</u></b>		
Accumulated Fund	<b>81,202,267.75</b>	66,851,414.64
Less. Prior Year Adjustments	<b>463,773.36</b>	
Excess of Income Over Expenditure	<b>12,214,865.85</b>	14,350,853.11
	<b>92,953,360.24</b>	81,202,267.75
EUROPEAN UNION GRANTS	<b>252,800.00</b>	
	<b>93,206,160.24</b>	
	<b>93,206,160.24</b>	
Accounts Payable	<b>3,583,515.10</b>	2,879,896.36
Accrued Expenses	<b>153,349.94</b>	153,349.94
Provision For Retiring Gratuity	<b>81,280.00</b>	70,110.00
Provision For Court Award	<b>-</b>	5,000,000.00
Cash Generated From Deposits	<b>4,995,664.10</b>	11,209,920.60
Miscellaneous Deposits	<b>19,490.91</b>	19,490.91
	<b>8,833,300.05</b>	19,332,767.81
<b>Total Capital and Liabilities</b>	<b>102,039,460.29</b>	<b>100,535,035.56</b>

Approved and signed for and on behalf of the Board

J.M.C.R.Jayasinghe  
Chairman

A.A.A.R.C.Attanapola.  
Director General

H.P.Dayananda  
Director

**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31ST  
DECEMBER,2002**

**31.12.2001**

**INCOME**

Interest on Investment	6,107,213.85	4,255,701.84
Interest on Staff Loans	95,521.41	93,190.07
Sale of Instructional Manuals	2,250.00	3,425.00
Receipt from Forfeiture of Bank Guarantees	14,107,666.75	25,143,833.00
Receipt from Forfeiture of Cash Guarantees	2,461,855.00	1,866,232.00
Special Surcharges and Other Income	89,239.00	39,655.80
Visa Transmission Fees	25,328,648.10	24,863,845.85
	<b>48,192,394.11</b>	<b>56,265,883.56</b>

**Operating Expenses**

Personnel Emoluments	4,878,081.35	4,410,715.76
Travelling and Subsistence	377,553.64	562,997.29
Supplies and Requisites	505,666.45	327,191.54
Rent,Electricity and Water	1,279,635.51	1,505,339.91
Repair and Maintenance(Office Equipment and Premises)	972,167.61	680,922.94
Repair and Maintenance(Vehicle)	706,042.18	576,883.53
Communication Services	1,199,637.12	1,577,726.30
Promotional Expenses	62,258.12	238,761.76
Entertainment	103,645.60	93,424.86
Audit Fee	472,461.50	766,998.00
Bank Charges	34,537.00	35,112.50
Bank Commission	78,105.13	55,144.71
Miscellaneous Expenses	60,532.00	28,600.00
Visa Transmission Fee	19,383,121.00	19,447,812.65
Professional Fee	578,867.50	-
Consultancy Services	-	16,083.14
Depreciation - Office Furniture and Fittings	161,672.36	148,786.46
Office Machinery and Equipment	4,541,035.33	5,927,529.10
Motor Vehicles	515,000.00	515,000.00
	<b>35,910,019.40</b>	<b>36,915,030.45</b>

**Excess of Income Over Expenditure from ordinary activities**

**12,282,374.71**      **19,350,853.11**

Unusual / Extraordinary items

67,508.86      5,000,000.00

**Excess of Income Over Expenditure**

**12,214,865.85**      **14,350,853.11**

PI/T/TQB/FA/2002

31 March 2003

The Chairman  
Textile Quota Board

Report of the Auditor General on the Accounts of the Textile Quota Board  
for the year ended 31 December 2002 in terms of Section 14(2)(c) of the  
Finance Act, No. 38 of 1971

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The audit of accounts of the Textile Quota Board for the year ended 31 December 2002 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 Section 13(3) of the Textile Quota Board Act No. 33 of 1996 and Section 13(1) of the Finance Act, No.38 of 1971. My observations which I consider should be published with the annual report of the Board in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act will be issued in due course.

## 1:2 Scope of Audit

Audit opinion, comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and the 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. The audit was carried out in accordance with Sri Lanka Auditing Standards, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit included examination of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles and significant estimates and judgements made in the preparation of financial statements evaluation of their overall presentation and determining whether accounting policies adopted were appropriate, consistently applied and adequately disclosed. Sub-sections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

## 2. Accounts

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### 2:1 Audit Opinion

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Except for the effects of the adjustments arising from the matters referred to in paragraph 2:2 of this report, I am of opinion that the financial statements have been satisfactorily prepared to present in all material respects the financial position of the Board as at 31 December 2002 and the results of its operation for the year then ended in accordance with generally accepted accounting principles.

2:2 Comments on Accounts

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2:2:1 Accounting Deficiencies

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Audit test checks revealed 8 accounting deficiencies totaling Rs.284,346. The possibility of other accounting deficiencies in the areas not covered by the test checks cannot be ruled out.

2:2:2 Lack of Evidence for Audit

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Acknowledgements in respect of payments aggregating to Rs.552,370 made during the year were not made available to audit. Sixteen audit queries on various activities of the Board issued during the period 27 June 2001 to 21 February 2003 had not been replied. In the circumstances it was not possible to be satisfied in audit in regard to certain transactions and activities of the Board.

2:2:3 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following instances of non-compliance were observed in audit.

- (a) Finance Act, No. 38 of 1971 – Sections 8(1), 12, 13(5)(d) and 14(3).
- (b) Textile Quota Board Act, No. 33 of 1996 – Section 24(1) and 24(2).
- (c) Inland Revenue Act No. 28 of 1979 – Section 2 and Inland Revenue Act, No. 38 of 2000 – Section 2.
- (d) Goods and Services Act, No. 34 of 1996 – Section 5.
- (e) Establishments Code of the Democratic Socialist Republic of Sri Lanka – Chapter V Section 2:5:1 and Chapter XV Section 3.2
- (f) Circular dated 19 February 1990 of the Ministry of Policy Planning and Implementation on the Legal work of State Institutions.
- (g) Public Administration Circular dated 22 February 1999 No. 6/99 and 08 October 1999 No .32/99.

(h) Public Administration Circular dated 26 February 1999 No. 2/99 and Public Finance Circular dated 28 February 2001 No. PF/PE/14 – Section 4(a).

(i) Public Finance Circular dated 16 January 2001 No. PF/PE/12.

### 3. Financial and Operating Review

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#### 3:1 Financial Results

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The operations of the Board during the year under review had resulted in a surplus of Rs.12,214,866 as compared with the corresponding surplus of Rs.14,350,853 for the preceding year, thus disclosing a deterioration of Rs.2,135,987 with financial results.

It was observed that the Bank current accounts of the Board had been holding balances which far exceeded the average requirement levels.

#### 3:2 Management Inefficiencies

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The following observations are made.

- (a) The Board had not prepared annual budgets appropriately from its inception in the year 1996.
- (b) An Action Plan and Work Plan had not been prepared for the year under review.
- (c) The performance of the Board did not reveal any evidence that it had achieved its objects included in the Action Plan for the preceding year.. The number of garment factories in the year 2001 had increased by 03 over that of the year 2000. However, the data required to ascertain the position relating to the year 2002 were not made available for audit.
- (d) Information on the quantity of quotas distributed and utilised under each category in respect of the years 2000, 2001 and 2002 required for an evaluation of the performance of the Board had not been made available to audit.
- (e) No action whatsoever had been taken by the Board for the recovery of loan balances amounting to Rs.293,816 due from the officers seconded for service in the Board who had subsequently been reverted to their substantive posts.

#### 3:3 Transactions not supported by Adequate Authority

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The following observations are made.

- (a) A retired Public Servant had been employed from time to time between August 2001 to October 2002 without the approval of the Board and without issuing a letter of appointment. He had been paid salaries amounting to Rs. 39,704.

The term of employment of the officer, appointed on contract basis had expired in October 2002. He had been paid Rs. 57,456 as salaries for the period from October to December 2002 without requisite approval.

- (b) Although the terms of employment of a temporary Data Entry Operator had expired on 11 June 1998, his term of employment had been extended. However, there was no evidence for such extension. That officer had been appointed to a permanent post of Data Entry Operator with effect from 01 October 2001 and salaries amounting to Rs. 128,115 had been paid to him for the period up to 31 December 2002.

#### 3:4 Transactions of a Contentious Nature

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The following observations are made.

- (a) Consequent to a recommendation made by the Cabinet, the Additional Secretary to the Ministry who function as the Chairman of the Board had visited the London together with a Professor of the University of Moratuwa for a study in connection with the establishment of a Degree Course in Textiles and Garments at the University of Moratuwa.

The cost of air tickets for the trip had been paid by the Ministry in July 2002 out of the funds covering the total cost of the trip made available by the General Treasury. However, the Board also had paid Rs.174,517 as the cost of air tickets.

- (b) The driver of the Director General had been paid a sum of Rs.3,980 at Rs.75 per day for 52 days for key duty said to have been attended to by the driver.

It was observed that during the times the driver had stated to have been attending to key duty he had been attending to his duties as the driver of the Director General's official motor vehicle and had obtained payments in that connection also.

#### 3:5 Uneconomic Transactions

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A mail server machine purchased for Rs.884,684 in September 2001 without following the tender procedure had not been made use of by the Board for a period of about one year.

### 3:6 Identified Losses

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- (a) The Board had spent a sum of Rs.46,362 for the purchase of three mobile telephones without obtaining the requisite authority. One of the telephones had malfunctioned and a new telephone had been

purchased from another company without obtaining a substitute for the malfunctioning telephone from the firm from which it was purchased.

- (b) A sum of Rs.5,000,000 payable to a garment factory owner on a Court order had been paid during the year under review.

### 4. Systems and Controls

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Special attention is needed in respect of the following areas of control.

- (a) Fixed Assets
- (b) Personnel
- (c) Legal Works
- (d) Investments
- (e) Budget

(S.C. MAYADUNNE)  
AUDITOR GENERAL

25<sup>th</sup> August, 2003

Auditor General  
Auditor General's Department  
Independence Square  
Colombo 7.

Dear Sir,

**REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF  
TEXTILE QUOTA BOARD FOR THE YEAR ENDED 31/12/2002 IN TERMS  
OF SECTION 14 (2) (C) OF THE FINANCE ACT NO. 38 OF 1971**

We write with reference to your report No. PI/I/TQB/FA/2002 dated 31/03/2003 on the above.

I wish to draw your kind attention to the following comments and observations.

- (1) The Paragraph Nos. 3.2, 3.3, 3.4, 3.5 and 3.6 of your final report had been sent to us prior to your final report for our comments.
- (2) Although we made available our comments well in advance by our letter dated 28/02/2002, we note that they have not been taken into consideration in arriving at the conclusions given in the final report. As such I would like to comments on the paragraphs referred to above as follows :

**3.2 Management Inefficiencies**

- a) It is not correct to state that the Board has not prepared annual budgets appropriately from its inception in the year 1996.

I wish to state that the Board has prepared annual budgets from the year 2001 onwards.

- b) The allocation, distribution and management of quota has to be made in terms of the scheme of allocation approved by the Hon. Minister in terms of the Textile Quota Board Act. The allocation of quotas during the period under review has been made according to a pre determined action plan
- (c) It is stated that the performance of the Board did not reveal any evidence that it had achieved objects included in the action plan for the preceding year. This is contrary to what has been stated in the above

paragraph which states that no action plan has been prepared. We would therefore, unable to comment on this paragraph. However, we wish to state that the Board had achieved its objects envisaged in the Textile Quota Board Act.

- (d) The information on allocation and distribution of quota are available with the Board and could have been easily obtained from the Director General if requested.
- (e) It is incorrect to state that the Board has not taken action to recover the loan balance of the officers who had reverted to their substantive posts. The loan balance have been recovered from the Ministry of Enterprise Development.

### 3.3 **Transaction not supported by the adequate authority**

- a) Retired Public Service Officer referred to in this paragraph has been engaged for the purpose of carrying out random checks on inspections carried out by the Inspectors attached to the Textile Division of the Ministry. The services of the Public Officer was engaged with the approval of the members of the Board. He was paid an allowance in respect of professional services rendered together with travelling and subsistence according to the government rates. He was not paid a salary as stated.
- b) Comments noted

### 3.4 **Transaction of a contentious nature**

- a) The Secretary to the Ministry of Enterprise Development Industrial Policy and Investment Promotion by his letter dated 05/03/2003 has explained the circumstances under which the payment of Rs. 174,517/- has been made by the Textile Quota Board in connection with overseas travel by the Additional Secretary on official duty. The Secretary has confirmed that there was no duplication of payment of any invoice received from the travel agent.
- b) The driver was not attending to duties of Director General nor was he paid over-time as stated when he was on key duty

### 3.5 **Unauthorized Transactions**

TQB has invited quotations from BC Software Systems Ltd., E-wis (Pvt) Ltd., Keells Business Systems Ltd. in December 2002 for obtaining a mail server solution for the TQB. These quotations were evaluated by the Executive Director, IT of the BOI. On the basis of his recommendations the then Chairman has approved that this tender be awarded to E-wis (Pvt) Ltd.

The terms of payment were as follows :

- 1) 50% after delivery
- 2) Balance after installation and commissioning satisfactorily

In terms of award the mail server has been supplied in February 2001. The payment of 50% was made in September 2001 and the balance 50% was paid after commissioning the mail server in July 2002.

### **3.6 Identified Losses**

- a) It is stated the Board has spent Rs. 46,362/- for the purpose of 03 mobile phones without obtaining the requisite approval. The Board has purchased only 02 mobile phones for the official use of its Chairman and Director General with the approval of the Chairman of the Board. The mobile phone of the Chairman was accidentally damaged and a new phone was purchased. The warranty given by the manufacturer for the previous phone did not cover the accidental damages.
- b) The payment of Rs. 5 Million to a garment factory in terms of the judgement delivered by the Supreme Court cannot be classified under identified losses.

Yours faithfully,  
**Textile Quota Board**

**Roy Jayasinghe**  
**Chairman**