

National Design Centre - 2013

The audit of financial statements of the National Design Centre for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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(1) of the Finance Act, No. 38 of 1971 and Section 84(3) of the Affiliated Crafts Councils Act, No.35 of 1982. My comments and observations which I consider should be published with the Annual Report of the Centre in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Centre's preparation and fair presentation of the financial statements 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 Centre's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My Opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the National Design Centre as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

- (a) Credit balances amounting to Rs.2,079,398 consisting of accrued expenses amounting to Rs.751,823 , creditors balances amounting to Rs.893,220 and balances in suspense amounting to Rs.434,307 and debit balances amounting to Rs.2,230,700 consisting of debtors balances amounting to Rs.1,223,410 , advances amounting to Rs.644,453 and balances receivable amounting to Rs.362,856 relating to preceding years had been adjusted to the Accumulated Fund as at the end of the year under review without being brought to account as restatements according to the retrospective applications or retrospective effects.
- (b) Even though depreciating an asset commences from the date on which it is made fit for use, according to the accounting policy of the Centre, assets are not depreciated in the year of purchase and as such the provisions for depreciation had been understated.

2.2.2 Accounting Deficiencies

Provision had not been made for the audit fees payable for preceding years amounting to Rs.533,900 and the audit fees payable for the year under review.

2.2.3 Unreconciled Control Accounts

The following observations are made.

- (a) A difference of Rs.7,482,770 existed in relation to 04 Fixed Assets Accounts according to the accounts and the Verification Reports and the reasons for the difference had not been furnished to audit.
- (b) A difference of Rs.31,781 was revealed between the balance of the staff loans and the Individual Loan Accounts as at 31 December 2013.
- (c) Even though the value of motor vehicles had been shown as Rs.21,895,563 in the financial statements, the value thereof according to the Reports of the Board of Survey amounted to Rs.19,915,471. As such a difference of Rs.1,080,092 existed.

2.2.4 Transactions not Supported by Adequate Authority

Debtors balances totaling Rs.1,734,890 and creditors balances totaling Rs.1,103,346 brought forward over a long period had been treated as balances that cannot be identified and written off from the books in the year under review without formal authority.

2.3 Account Balances Receivable and Payable

The following observations are made.

- (a) According to the financial statements presented by the Centre, the total of the Trade and Other Accounts Receivable for the year under review amounted to Rs.6,532,740 and a sum of Rs.233,255 had been balances older than 05 years.
- (b) The Trade and other Accounts Payable of the Centre for the year under review totaled Rs.505,398 and a sum of Rs.290,398 out of that had been balances older than 05 years.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.,	Non-compliance
(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka Chapter XIV Section 28	Reimbursement of travelling expenses should be obtained by submitting an application within 30 days after the completion of duty travel and a surcharge should be imposed on applications not complying with the requirement. Nevertheless, a travelling claim totaling Rs.12,379 delayed for more than 03 months had been treated as a special case and paid without imposing the surcharge.
(b) Financial Regulation 396 of the Democratic Socialist Republic of Sri Lanka	Action in terms of the Financial Regulation had not been taken on 03 cheques totaling Rs.5,286 deposited but not realized.
(c) Treasury Circular No. 842 of 19 December 1978	A Register of Fixed Assets had not been maintained for buildings valued at Rs.19,842,682.

3. Financial Review

3.1 Financial Results

According to the financial statements presented for the year under review, the overall working of the Centre had resulted in a surplus of Rs.3,157,429 as against the deficit of Rs.6,513,683 for the preceding year, thus indicating an improvement of Rs.9,671,112 in the financial results. The increase of the recurrent grants and capital received from the Treasury as compared with the preceding year, by Rs.5,348,200 and Rs.2,172,637 respectively had been the main reasons for the improvement of the financial results.

4. Operating Review

4.1 Performance

The following observations are made.

(a) The Centre has 10 designers and each designer had been given a target of making 05 designs per month. Out of the 705 designs completed during the year under review, 507 had been issued to the workshop while 198 had been issued to external designers. A methodology had not been introduced to take follow up action in connection with implementation of programmes to popularize the designs among the craftsmen. The measurement of the extent of productivity accruing to the country from the new designs had become problematic.

(b) Physical Progress

Out of the 03 courses planned to be conducted in the year under review, 02 courses had not been conducted. The new designs presented under providing market facilities for new designs had achieved only about 58 per cent while the handicraft designs and the designers had not been done as planned. Out of the targets set for the supply of designs advisory services only 50 per cent had been achieved. As such, out of the total of 05 programmes targeted in the Annual Action Plan, the expected targets of 03 programmes had not been achieved.

4.2 Management Inefficiencies

The following observations are made.

(a) New Showroom – Battaramulla

Even though one of the primary objectives of the Centre is the popularization of new designs, the new showroom at Battaramulla had been opened on 28 November 2011 by spending a sum of Rs.2,853,627. As the showroom had been closed down from the preceding year, the goods valued at Rs.998,400 from a private institution received in the year 2011 and 338 design samples valued at Rs.250,024 sent by the Nattarampotha Branch had been stacked in different places in the Head Office. Those goods remained idle without being used even by 30 May 2014. The expected objectives had not been achieved.

(b) Construction of Chicken Pens Under the Divineguma National Project

Contrary to the objectives of the Centre and on the instructions of the Ministry of Economic Development and the Line Ministry an agreement had been entered into with a supplier in Kandy for the construction and supply of 67 chicken pots valued at Rs.2,074,474. Accordingly, 15 model chicken pots had been constructed, but the Centre had not taken action for the takeover of those chicken pots. The contractor had sent a letter of demand to the Centre informing that Court action will be taken for the loss of Rs.3,621,895 incurred in this connection.

4.3 Idle and Underutilised Assets

The following observations are made.

- (a) Even though the Centre and the Sri Lanka Tourism Development Authority had jointly constructed a common facilities centre and a rest room at the Nattarampotha Kalapura and purchased machinery for the Centre at a cost of Rs.68,470,615 and handed over to Crafts Society, those remained idle without being used over a period of 04 years.
- (b) Even though a sum of Rs.1,008,576 had been spent on the construction of the car park, playground and the Parapet Wall of the Common Facilities Centre of the Kalapura Village, those remained idle without being used for any purpose. Even though 20 feet of the Parapet Wall constructed near the car park and the playground had broken down over 04 years ago, action had not been taken to repair the wall.
- (c) As an officer had not been appointed to the laboratory of the Nattarampotha Branch, 79 inventory goods valued at Rs.145,089 and 48 kinds of chemicals valued at Rs.47,074 remained idle from the beginning of the year 2010 up to the end of the year 2013.

4.4 Staff Administration

A reconciliation of the approved and the actual staff of the Centre as at 31 December 2013 revealed 05 excess staff and 36 vacancies and the Centre had failed to fill those vacancies six non-substitute employees not belonging to the approved staff deployed in service had been paid a sum of Rs.1,930,500 as salaries and allowances during the year under review.

5. Accountability and Good Governance

5.1 Action Plan

Even though an Action Plan had been prepared, the Centre had failed to implement several targeted training programmes during the year under review.

5.2 Budgetary Control

Variances ranging from 12 per cent to 100 per cent were observed between the budgeted and the actual income and expenditure, thus indicating that the benefit had not been made use of as an effective instrument of financial control.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Centre, from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Fixed Assets
- (c) Financial Control