

National Design Centre - 2014

The audit of financial statements of the National Design Centre for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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 National 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 Auditing 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 judgement, 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 2014 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

Even though according to the Sri Lanka Public Sector Accounting Standards No.07, an asset should be depreciated since the date on which it had become usable condition, provisions for depreciation on property, plant and equipment amounting to Rs.12,399,690 purchased in the year under review and used by the Centre had not been made.

2.2.2 Unreconciled Control Accounts

A difference of Rs.11,106,485 was observed as the value of 7 fixed assets accounts amounting to Rs.52,212,838 according to the Board of Survey Reports but according to the financial statements for the year under review the cost of those assets amounted to Rs. 63,319,323 and the reasons for the difference were not made available for audit.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.,

Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(a) Financial Regulations 371(2)

Non-compliance

Even though, a sub-impresst should be settled immediately after the completion of the purpose for which it is granted, the advances totalling of Rs.135,215 granted in 11 instances had been settled after the delays from 2 months to 8 months.

(b) Financial Regulations 396

Action in terms of the Financial Regulation had not been taken in respect of a cheque valued at Rs.50,000 issued but not realized and lapsed for more than 6 months.

3. Financial Review

3.1 Financial Results

According to the financial statements presented for the year under review, the financial result of the Centre had been a deficit of Rs.162,853 as against the surplus of Rs.3,157,429 for the preceding year, thus indicating a deterioration of Rs.3,320,282 in the financial result. Even though the increase of the recurrent grants received from the Government as compared with the preceding year by 10 per cent, increase of personal emoluments by Rs.4,777,800 and maintenance expenditure by Rs.1,067,604 had been the main reasons for the deterioration 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 at least 05 designs per month. Out of the 690 designs completed during the year under review, 547 had been issued to the workshop while 113 had been issued to external designers. However, a methodology had not been introduced to take follow up action in connection with the implementation of programmes to popularize the designs among the craftsmen. As such, the measurement of the extent of productivity accruing to the country from the new designs had become problematic.

(b) Physical Progress

Out of the total 05 programmes targeted in the Annual Action Plan, the expected targets of 04 programmes had not been achieved by the Centre. Details are given below.

Programme/Activity	Target Expected in the year 2014	Target Achieved as at 31 December 2014	Percentage of the Progress Achieved
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	Units	Units	
<u>(i) Training of Designers and Improving the Capacity Building</u>			
Diploma Course in Higher National Designs	25	0	0

(ii) Promotion of Market Facilities
for New Designs

New Designs Trade Exhibitions			
Number of New Designs Presented	02	01	50
Number of Beneficiaries	600	400	66
Number of New Designs Introduced for the Design Museum	75	36	48
	20	-	0

(iii) Information, Follow-up actions,
Researches and Development

Raw Materials and Substitute Projects	04	-	0
Market Inspection Programmes	02	01	50

(iv) Consultancy Services

Number of Beneficiaries Obtained Library Facilities	360	111	31
Services connected with Number of Designs	12	07	58

4.2 Management Inefficiencies

The following observations are made.

- Action had not been taken to acquire and account the land where the Centre is operated and the land at Nattarampotha .
- In the examination of bank reconciliation, relating to a bank account the sum of Rs.21,000 deposited in the year 2002 had not credited to the Bank up to the date of audit and the follow up action had not been made for the recovery of this money.

4.3 Internal Audit

Even though, an Internal Audit Branch which is functioned with one female officer and the concurrence of the Auditor General had not been obtained for the Internal Audit Plan of the year under review and the internal audit reports had not been furnished to the Auditor General.

4.4 Personnel Administration

Approved cadre and the actual cadre of the Centre had been 102 and 85 respectively whereas 03 excess staff and 20 vacancies existed in the staff . Three non-substitute employees not belonging to the new approved cadre had been deployed in service .

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Draft financial statements of the year under review had been furnished to audit on 31 March 2015 and the revised financial statements had been furnished back to audit on 12 June 2015.

5.2 Action Plan

Even though an Action Plan had been prepared for the year under review the Centre had failed to implement several targeted training programmes during the year under review . Nevertheless, a number of traditional village projects not included in the Action Plan, had been executed with the assistance of the Line Ministry.

5.3 Budgetary Control

Variances ranging from 22 per cent to 121 per cent were observed between the budgeted and the actual income and expenditure, thus indicating that the budget 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