

National Crafts Council – 2015

The audit of financial statements of the National Crafts Council for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in equity and the 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 National Crafts Council and Allied Institutions Act, No.35 of 1982. My comments and observations which I consider should be published with the Annual Report of the Council 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 to the Chairperson in due course.

1.2 Management’s Responsibility for 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council’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 Council’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 Crafts Council as at 31 December 2015 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 Accounting Policies

The following observations are made.

- (a) The depreciation policy for library books valued at Rs.772,735 shown as non-current assets had not been determined.
- (b) Even though the non-current assets amounting to Rs.99,460,609 purchased from Government grants had been annually depreciated, action had not been taken to write off the relevant depreciation as amortization.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Identified debit and credit relating to the preceding year amounting to Rs.590,754 and Rs.57,267 had been brought to account as sundry income and expenditure of the year under review.
- (b) Audit fees payable as at 31 December 2015 had been understated by Rs.97, 385.
- (c) Provisions for gratuity as at 31 December 2015 had been understated in accounts by Rs.255,007 due to computation errors.

- (d) In the computation of the gratuity payable to two officers who had resigned from service, the total had been under-computed by Rs.662,564 and brought to account.
- (e) In the computation of net cash flows received from operations, the differences of Rs.1,294,550 in Accrued Expenses and Rs.55,000 in General Deposits had not been adjusted and over-adjustments had been made in the differences of other current assets by Rs.1,172,638 and accounts receivable by Rs.634,789.
- (f) Even though 03 motor vehicles legally transferred to the Crafts Council in the years 2010 and 2011 by the Sri Lanka Handicrafts Board, had been valued by the Department of Valuation for a sum of Rs.2,800,000, those had not been brought to account.
- (g) The following matters are observed in respect of Physical Stock Verification as at 31 December 2015.
 - (i) According to Reports of the Boards of Survey, the survey had been conducted relating to 13 sections of the Council and the value of a large number of various goods had not been recorded. As such, the cost of those goods had not been included in the total value of stocks.
 - (ii) Even though the Board of Survey had identified stock shortages of 106 items as at 31 December 2015 at the Head Office, Fort Handicraft Trade Stall and Molagoda Handicraft Trade Stall, the value of the shortages of those stocks had not been identified and adjusted in the accounts.
 - (iii) Unusable stationery of the Head Office amounting to Rs.136,487 had not been adjusted in the Stock Accounts.
 - (iv) Even though the Board of Survey had identified excess stocks relating to 15 types of items in 03 sections, these excesses had not been adjusted in the Stock Accounts.
- (h) Action had not been taken to identify and account for the unidentified credits totalling Rs.855,036 relating to 04 Bank Current Accounts and the unidentified debits totalling Rs.166,924 relating to 02 Bank Current Accounts.
- (i) Action had not been taken to identify and account for cash deposits totalling Rs.159,895 deposited in the Crafts Development Funds Bank Current Account in the years 2012, 2013 and 2015.

2.2.3 Unexplained Differences

The following observations are made.

- (a) Even though the balance of the Miscellaneous Advance Account amounted to Rs.927,647 as at the end of the year under review according to Ledger Accounts, that balance according to the schedule of Advances had been Rs.1,286,785 thus indicating a difference of Rs.359,138.
- (b) A difference of Rs.27,071,449 was observed in the comparison of the balances relating to 07 Accounts of Fixed Assets shown in the financial statements as at 31 December of the year under review with the Register of Fixed Assets.

2.2.4 Lack of Evidence for Audit

The evidence shown against the following accounts had not been furnished to audit.

Item -----	Value ----- Rs.	Evidence not made available -----
Motor Vehicles	10,562,498	Reports of Boards of Survey on 14 motor vehicles
Creditors	273,975	Letters of Confirmation of Balances

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Out of the total balance of trade and other receivables amounting to Rs.2,660,038 as at the end of the year under review, the total of loan balances less than 1 year, the total of loan balances from 1 to 2 years and the total of loan balances of 3 years and older amounted to Rs.180,500, Rs.2,432,122 and Rs.47,416 respectively and proper measures had not been taken to recover these outstanding loan balances.
- (b) Out of the total balance of trade and other payables amounting to Rs.3,405,298 as at the end of the year under review, the total of loan balances less than 1 year, the total of loan balances from 1 to 2 years and the total of loan balances of 3 years and older amounted to Rs.932,790, Rs.200,000 and Rs.2,272,508 respectively and steps had not been taken to settle these outstanding loan balances.
- (c) Action had not been taken to identify and settle the suspense balance amounting to Rs.359,137 had existed in the Advances Account as at 31 December 2015.

(d) The Crafts Council had provided 10 Buddha statues to the Presidential Secretariat in the year 2014 and action had not been taken to recover the total of Rs.345,750 thereon from the Presidential Secretariat.

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

The following non-compliances with laws, rules, regulations and management decisions observed during the course of audit are given below.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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(a) Payment of Gratuity Act, No. 12 of 1983	Even though the payment of gratuity should be made within a period of 30 days from the date of retirement of an employee, the payments to 06 employees retired in the year under review had been delayed beyond that period.
(b) Section 12.2.6 of Chapter VII of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	Payments of Rs.97,575 as acting salaries had been made to two officers for acting in posts without obtaining the approval of the Secretary to the Ministry.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 371(2)	Even though the ad-hoc sub imprests should be settled immediately after the completion of the purpose for which it was granted, action had not been taken to settle advances totalling Rs.1,286,785 granted during the period from the year 1993 up to the year 2015.
(ii) Financial Regulation 396(d)	Action in terms of the Financial Regulation had not been taken in respect of 27 cheques totalling Rs.69,683 outstanding for over a period of 06 months.
(iii) Financial Regulation 756(1)	Appointment of Boards of Survey for the year 2015 had been delayed up to 14 March 2016.

- (d) Section 4.2.6 of Public Enterprises Circular No. PED/12 of 02 June 2003 Even though the Quarterly Performance Report should be reviewed and submitted to the Department of Public Enterprises and the General Treasury by the Board of Directors, 30 days after the end of the quarter, action had not been taken accordingly.

2.5 Transactions not supported by Adequate Authority

The following observations are made.

- (a) Accrued expenses amounting to Rs.5,227,905 had been brought to account by an unapproved journal entry.
- (b) Out of the suspense balance of Rs.104,050 existed as at 01 January 2015 in the Employees' Loan Schedule, a sum of Rs.88,300 had been written off from the Accumulated Fund Account without proper approval.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year under review had been a deficit of Rs.12,226,762 as compared with the corresponding deficit of Rs.4,035,819 for the preceding year, thus indicating a deterioration of Rs.8,190,943 in the financial result of the year under review as compared with the preceding year. The decrease in the total income of the Crafts Council by Rs.3,517,643 and the increase of the total expenditure by Rs.4,673,300 as compared with the year 2014 had been the main reason for the above deterioration.

An analysis of the financial results in the year under review and preceding years, revealed that there had been continuous financial deficits from the year 2011 up to the year 2015. However, in considering employees' remuneration, Government Tax and depreciation on non-current assets, the contribution of the National Crafts Council had been Rs.67,404,637 in the year 2011 and it had grown continuously and had been Rs.133,765,748 in the year under review.

3.2 Analytical Financial Review

The expenditure incurred on the development of crafts and welfare activities in the year 2015 had exceeded that of the year 2014 by 25.55 per cent and the expenditure incurred on the local and foreign exhibitions and seminars decreased by 88.07 per cent in the year under review due to the decrease in the sponsorship funds received.

4. Operating Review

4.1 Performance

The main objectives of this Council are assisting and advising in the promotion, development and marketing of handicrafts, establish, maintain and operate centres, workshops and other institutions for the purpose of training craftsmen, holding exhibitions both in Sri Lanka and abroad and providing raw materials required for the improvement of productions of craftsmen.

The following observations are made in respect of fulfilling the above objectives.

- (a) In comparison of the number of various training programmes conducted by the Council and the number of persons trained during the period of five preceding years, the number of training programmes and the number of persons trained had gradually increased from the year 2011 up to the year 2014. Nevertheless, the number of training programmes and the number of persons trained had decreased by 27.31 per cent and 29.85 per cent respectively in the year 2015 as compared with the year 2014.
- (b) The number of apprentices trained on full time by the Training Centres had increased by 13.79 per cent in the year under review as compared with the year 2014 and accordingly, there had been an improvement in the training of apprentices on full time by the Training Centres.
- (c) The progress of conducting Market Promotion Programmes, Competitions and Exhibitions during a period of 04 years from the year 2011 up to the year 2014 had gradually improved and those programmes had not improved in the year under review as compared with the year 2014.
- (d) A sum of Rs.33,203,728 had been granted in the year 2014 for the development of Handicrafts Villages and provisions had not been made for that purpose in the year 2015.
- (e) The other income had decreased by 69.23 per cent in the year 2015 as compared with the year 2014. The receipts for the Crafts Fund had decreased by 78.7 per cent in the year 2015 as compared with the year 2014 due to the closure of the Galle Sales Outlet and the income earned from foreign exhibitions and contributory programmes had decreased by 79.58 per cent as well due to the decrease in receipts of cash from sponsors in the year 2015 as compared with the year 2014.
- (f) According to the Action Plan of the year under review, the progress of 07 key functions had been at a level less than 50 per cent and action had not been taken to implement 04 key functions such as providing facilities for cultivation and distribution of raw materials, establishment of handicraft manufacturing and sales villages, providing foreign training for craftsmen and conducting special sales promotion programmes in the Kawantissapura Manufacturing and Sales Village.

4.2 Management Activities

The following observations are made.

- (a) A craftsman who had applied for participation at the Expo Milano 2015 Programme in Italy in May 2015 had purchased an air ticket by spending a sum of Rs.56,000. Nevertheless, the craftsman had not been able to participate in that programme due to failure in obtaining necessary recommendations speedily in obtaining the visa within the relevant time limit. As such, the Crafts Council had to pay the cost of the air ticket to the craftsman which had been paid by him.
- (b) Instances where misplacements, damage and destructions caused to various creations submitted by craftsmen for the National Handicrafts Competition and Exhibition executed for the encouragement of craftsmen by the Crafts Council were observed. Moreover, the Management had not taken action to introduce an adequate and proper methodology to protect them.
- (c) Even though a State land had been obtained on lease basis for a lease period of 30 years for the construction of the Handicrafts Manufacturing and Sales Village proposed to be constructed in Jaffna, a lease agreement had not been entered into for that long term lease. Further, lease amount of Rs.96,000 payable for the year under review for the continuous maintenance of this lease had not been paid up to November 2016.
- (d) The buildings that existed on the land located at Thalangama in Battaramulla transferred to the Council by the Urban Development Authority on 99 year lease basis, had been demolished and new buildings had been built. Moreover, the Management had not taken action to specifically identify the boundaries of this land and to settle them even up to August 2016.
- (e) The certificates relevant to the vesting of the land of 1.1165 hectares in extent in the Crafts Council on which the Sigiriya Handicraft Village is located had been signed and forwarded to the Divisional Secretary of Dambulla on 18 April 2013. Nevertheless, the Management had not taken action to complete the activities of vesting this land even by the year 2016.
- (f) The following matters were observed in respect of the Handicrafts Manufacturing and Sales Village proposed to be constructed at Kawantissapura in Hambanthota under the financial sponsorship of the Government of India.
 - (i) Even though a land of 1.6187 hectares in extent had been given on lease basis for 30 years from 29 October 2013 for constructing the Manufacturing and Sales Village, the tenure of the land had not been properly taken over from the Divisional Secretary by paying the due tax and instalments even by 31 July 2016.

- (ii) Even though the contract for the constructions of the proposed village project had been awarded to a local contractor by the Government of India on 17 July 2013 and those work should have been completed by 30 June 2014, the constructions of the relevant project had not been completed even by 31 July 2016 due to failure in carrying out the constructions properly by the contractor.

4.3 Idle and Underutilized Assets

A building and 12 trade stalls of the Sigiriya Crafts Village had remained idle over a period of one year without being made use of.

4.4 Uneconomic Transactions

Thirteen craftsmen had been made to participate in a crafts exhibition held for the first time in Bangalore in India without a prior analysis of the returns from that exhibition. The exhibition was a failure and as such, a sum of Rs. 211,250 being half of the amount spent for the air tickets of the craftsmen, had been paid to them by the Crafts Council and the total of Rs.347,862 spent by the Crafts Council for this exhibition had been an uneconomic transaction.

4.5 Identified Losses

The following observations are made.

- (a) Electricity bills and water bills of a trade stall of the Crafts Council and three Regional Training Centres had not been paid as specified. As such, the electricity and water supply had been disconnected and payments totalling Rs. 33,872 had been made in the year 2015 for the resumption of those services.
- (b) Shilpa 2014, the National Handicrafts Competition and Exhibition had been held in the year 2015 at the Bandaranaike Memorial International Conference Hall. The creations submitted for that exhibition and competition by 04 craftsmen had been misplaced and as such, payments totalling Rs. 31,600 had been made by the Council to those craftsmen.

4.6 Commencement of Projects on Lands /Property not properly vested

The following observations are made.

- (a) The Council had paid a sum of Rs. 1,414,227 during the year 2015 for the maintenance and repairs of buildings of 07 Craft Training Centres not legally vested by the Handicraft Board in the Crafts Council which had maintained Training Centres for a long period.
- (b) A sum of Rs. 1,529,385 had been paid in the year 2015 for the constructions of the Central Provincial Office Building situated in the premises of the Polgolla Textile Project

belonging to the Ministry of Education which does not legally belong to the Crafts Council.

4.7 Staff Administration

The following observations are made.

- (a) The approved cadre of the National Crafts Council had been 262 while the actual cadre stood at 239. Twenty eight vacancies existed in the staff including 06 in the secondary level and 22 in the tertiary level. Even though the approved cadre of the primary level was 21, an excess of 05 employees existed as the actual cadre was 26.
- (b) In view of the shortfall of officers in the secondary and tertiary levels, 120 Craft Training Centres in operation in the year 2014 had decreased to 112 by the end of the year 2015 and an adequate staff could not be deployed in strengthening internal control, assignment of work, internal inspection and the Internal Audit Unit of the Council.
- (c) Even though the officer who served in the post of Accounting and Procurement Officer had resigned from service in February 2014, action had not been taken to recruit a permanent employee for that post.
- (d) The number of employees had increased during the 5 preceding years and the total cost of employees had increased by Rs.65,965,881 from Rs.62,027,154 in the year 2011 up to Rs.127,993,035 by the year 2015. As such, the average cost of an employee had increased by 89.64 per cent from Rs.273,247 in the year 2011 up to Rs.518,190 by the year 2015.

4.8 Utilization of Motor Vehicles

The following observations are made.

- (a) Three out of 5 motor vehicles which had been temporarily attached to the Crafts Council since 03 June 2015 by the Ministry had been repaired by spending Rs. 240,500 and the remaining 02 motor vehicles had been out of running condition since the date of temporary attachment. As such, they had been parked in the Head Office premises of the Crafts Council.
- (b) Even though the Process of Disposal of Motor Vehicles should be implemented under the supervision of the Chief Accounting Officer in terms of Section 12 of Public Finance Circular No.02/2015 of 10 July 2015, a van belonging to the Council which had been removed from running since April 2014 had been parked in an unprotected matter in the office premises over a period exceeding two years without taking action to dispose of it.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the financial statements should be presented to the Auditor General within 60 days after the close of the year of accounts in terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements relating to the year under review had been presented to audit on 06 June 2016, after a delay of 03 months.

5.2 Budgetary Control

It was observed that the budget had not been made use of as an effective instrument of management control due to the following observations.

- (a) Existence of variances ranging from 14 per cent to 514 per cent revealed in the comparison of the budgeted recurrent expenditure with the actual recurrent expenditure of 18 Heads of Expenditure.
- (b) Existence of variances ranging from 17 per cent and 180 per cent revealed in the comparison of the budgeted development expenditure with the actual development expenditure of 04 programmes.
- (c) Action had not been taken to incur expenses from the development provisions totalling Rs.4,475,000 received for 04 sub- programmes under the Development Programme. As such, 100 per cent of the budgeted provision had been saved.

5.3 Tabling of Annual Reports

Even though the final audited accounts together with the Audited Report should be tabled in Parliament in the three languages, within 150 days after the close of the financial year in terms of Section 6.5.3 of Public Enterprises Circular No. PED/12 of 02 June 2003, the tabling of the Annual Report for the year 2013 had been delayed until 10 March 2016 and action had not been taken to table the Annual Report for the year 2014 up to 31 August 2016.

5.4 Unresolved Audit Paragraphs

The following observations are made.

- (a) According to the Decision of the Cabinet of Ministers No. CM/08/2322/349/015 of 08 February 2009, the Craft Training Centres situated island- wide under the Sri Lanka Handicrafts Board and their properties had been vested in the National Crafts Council. However, according to the accounts of the Handicrafts Board, assets valued at Rs.46,000,000 belonging to the Centres had not been brought to account. Action had not

been taken to vest the legal ownership of 03 motor vehicles and 69 permanent buildings among these assets in the Council even by the end of the year under review.

- (b) The wooden bridge constructed in the year 2012 at a cost of Rs.1,152,902 to provide access to the crafts village of the premises of the Crafts Council had been demolished and removed for another development purpose even before it was opened. Action had not been taken in terms of Financial Regulation 504 to write off this asset from the books.

6. **Systems and Controls**

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

Areas of Systems and Controls

Observations

- | | |
|--------------------------|---|
| (a) Financial Control | Non-recovery of receivable balances, maintenance of Bank Accounts and existence of unsettled balances in the preparation of Bank Reconciliation Statements. |
| (b) Fixed Assets Control | Non-maintenance of Registers of Assets properly and delays in appointing Boards of Surveys and conducting surveys. |
| (c) Stores Control | Failure in updating of stores materials and stocks of exhibits. |
| (d) Internal Control | Failure in providing internal circulars and instructions and taking action accordingly. |