

National Crafts Council – 2016

The audit of financial statements of the National Crafts Council for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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.

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 2016 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

Depreciation should be commenced on an asset once it is made available for use in terms of Sri Lanka Public Sector Accounting Standard 07. However, for the year 2016 the National Crafts Council had not depreciated the fixed assets valued at Rs. 13,111,983 being in use and purchased in the year 2016, and 03 vehicles assessed in the year 2016 to be Rs. 28,000,000.

2.2.2 Accounting Standards

Although the non-current assets valued at Rs. 121,331,961 purchased from the Government grants had been depreciated annually, an accounting standard had not been identified for accounting the capital grants.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Action had not been taken to identify and account the unidentified deposits amounting to Rs.468,968 in respect of 02 state bank current accounts, and unidentified credits amounting to Rs. 53,587 as at 31 December 2016. Action had not been taken to identify and account direct deposits and non-cleared deposits with respect to 2 bank current accounts, amounting to Rs. 52,320 and Rs. 2,500 respectively.
- (b) Due to the following deficiencies regarding the preparation and presentation of financial statements, the accuracy thereof remained questionable in audit.
 - (i) The balance of Rs. 13,472 existed as at 31 December 2016 in a state bank current account for which no bank reconciliations statements had been prepared and no operations had been performed over several preceding years, had been omitted from the financial statements.
 - (ii) Balances totalling Rs. 4,064,541 in respect of 13 ledger accounts included in the general ledger as at 31 December 2016, had not been included in the trial balance, whilst account balances totalling Rs. 8,158,242 included in the trial balance, had not been included in the ledger.

- (c) Due to computational errors, allocations for gratuity had been understated by a sum of Rs. 60,499 in the accounts as at 31 December 2016.
- (d) A sum of Rs.946,883 relating to the rectification of the errors in the preceding years that had been adjusted to the Accumulated Fund Account at the commencement of the year under review, had been added in the cash flow statement of the year under review when computing the net cash flow generated from the operating activities.
- (e) Four cheques not presented for encashment despite being issued that should have been adjusted to the surplus or the deficit of the preceding year, and unidentified receipts totalling Rs. 170,118, had been adjusted to the statement of income as being unidentified receipts.
- (f) Monies totalling Rs.75,950 recovered in the year under review from the salaries of the relevant officers in respect of the unsettled advances, had been accounted as other income instead of being used for settling the cash advances.
- (g) The sum of Rs.713,405 received in the year 2016 from the Ministry for developing the training centre in Polgolla, and the value of the capital equipment purchased by spending that sum, had been accounted in the statement of financial performance as recurrent receipts and recurrent payments respectively.
- (o) As a sum of Rs. 3,699,744 incurred on a building being used at present once the construction had been completed as at 01 January of the year under review, had been accounted as work in progress without being capitalized, depreciation thereon had been omitted.

2.2.4 Unexplained Differences

The following observations are made.

- (a) Even though the balance of the Miscellaneous Advance Account amounted to Rs. 499,931 as at the end of the year under review according to Ledger Accounts, that balance according to the schedule of Advances had been Rs. 588,210, thus indicating a difference of Rs. 88,279.
- (b) A difference of Rs. 68,608,465 was observed in the comparison of the balances relating to 09 Accounts of Fixed Assets shown in the financial statements as at 31 December of the year under review with the Register of Fixed Assets.

2.2.5 Lack of Evidence for Audit

No supporting evidence for verifying the accuracy of the journal entry No. 332 to 343 relating to the value totalling Rs. 38,531,237, had been made available to audit either with those journal entries or separately.

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. 8,204,379 as at the end of the year under review, the total of loan balances more than 3 years amounted to Rs. 2,579,538. Action had not been taken to recover those loan balances.
- (b) Out of the total balance of trade and other payables amounting to Rs. 4,926,862 as at the end of the year under review, the total of loan balances from 1 to 2 years and the total of loan balances of over 3 years, amounted to Rs. 2,501,593, and Rs. 2,425,269 respectively, and steps had not been taken to settle those balances.

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

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

<u>Reference to Laws, Rules, and Regulations, etc.</u>	<u>Non-compliance</u>
(a.) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulations 115, 217, and 218	Action had not been taken in terms of Financial Regulations on a sum totalling Rs. 763,735 relating to 29 payment vouchers in the year under review.
(ii) Financial Regulation 138 (6)	Payments had been made in respect of 15 vouchers valued at Rs. 820,181 without supporting documents for verifying the payment.
(iii) Financial Regulation 138 and 245 (I)	Payments had been made in respect of 15 payment vouchers totalling Rs. 3,712,668 without being certified.
(iv) Financial Regulation 371 (2)	"Ad hoc" Sub-Imprestts should be settled soon after the completion of the intended task for which it was given. However, action had not been taken to settle the advances totalling Rs. 316,227 given in the period 1996 – 2016.
(b.) Public Finance Circular, No. 05/2016, dated 31 March 2016, and Financial Regulation 757	A survey should be conducted on the assets, and the reports thereon should be furnished to the Auditor General, but reports had not been furnished up to June 2017.

2.5 Transactions not supported by Adequate Authority

The following observations are made.

- (a) How the suspense balance of Rs.326,857 existed in the advance account as at 31 December 2016 had been settled, and the authority in that connection, had not been verified to audit.
- (b) Payments amounting to Rs.4,569,360 had been paid in the year under review for developing the Crafts Village in Polgolla, and a sum of Rs. 2,764,104 had been reimbursed by the Ministry up to 29 December 2016. As such, a sum of Rs. 1,805,256 received in respect of other development activities, had been utilized on that activity, and a proper approval thereon had not been presented to audit.

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. 2,122,880 as compared with the corresponding deficit of Rs. 12,226,762 for the preceding year, thus indicating an improvement of Rs. 10,103,882 in the financial result of the year under review as compared with the preceding year. The increase in the Government recurrent grants by a sum of Rs. 9,432,300 had mainly attributed to the said improvement.

An analysis of the financial results in the year under review and the preceding 04 years revealed that there had been continuous financial deficits from the year 2012 up to the year 2016. However, in considering employees' remuneration, Government Tax and depreciation on non-current assets, the contribution of the National Crafts Council had been Rs. 49,657,039 in the year 2012, and having grown continuously, it had become Rs. 134,641,679 in the year under review.

4. Operating Review

4.1 Performance

In terms of Section 17 of the National Crafts Council and Allied Institutions Act, No.35 of 1982, the main objectives of this Council are assisting and advising in the promotion, development and marketing of handicrafts, expansion of the handcraft products and improvement of the quality and standard of the finished items, 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 2012 up to the year 2014. Nevertheless, the number of training programmes and the number of persons trained had decreased in the year 2015. As compared with the year 2015, the number of training programmes, and the persons trained, had increased by 25.6 per cent and 29.9 per cent respectively in the year 2016.
- (b) The number of apprentices trained on full time by the Training Centres had been 668 in the year 2015 , whereas that number had increased by 72 per cent reaching 740 in the year 2016.
- (c) There had been an improvement in conducting Market Promotion Programmes, Competitions and Exhibitions during the period 2012-2015. However, as compared with the year 2015, conducting such programmes in the year under review had decreased by 26 per cent.
- (d) According to the Action Plan, a sum of Rs. 4,500,000 had been allocated for the programme to improve the Polgolla Handloom Textile Project, and payments amounting to Rs. 4,569,360 had been made. However, the physical progress had not been mentioned in the Action Plan.
- (e) Despite being planned to provide one craftsman with foreign training in the year under review, the funds allocated thereon, had been spent on the marketing promotion programme. As such, no foreign training had been provided for the craftsmen during the year.
- (f) Having been planned to modernize the showroom in Molagoda, a sum of Rs. 1,000,000 had been estimated thereon, but only a sum of Rs. 382,000 had been spent during the year, thus indicating a financial progress of 38 per cent.

4.2 Management Activities

The following observations are made.

- (a) According to the Cabinet Decision No. අමප/08/2322/349/015, dated 08 January 2009, a number of 131 craftsmen training centres located island wide under the purview of the Sri Lanka Handicrafts Board, and the properties belonging thereto, had been handed over the Council. However, action had not been taken to legally take over and account the lands and buildings of 129 of those training centres.
- (b) In terms of Section 13(2) of the Finance Act, No. 38 of 1971, the audit fees of the Government corporations, and institutions taken over by the Government, should be paid to the Auditor General with the concurrence of the relevant Minister and the Minister of Finance. Nevertheless, action had not been taken to pay the audit fees amounting to Rs. 1,951,294 payable as at 31 December 2016.

- (c) Once expenses had been incurred in excess of the provisions made for the year under review to the 03 Objects, local travel expenses, printing costs, and payments of the Board of Directors, the excess of the first limit of the said expenses revised by the Board of Directors, had been 209 per cent, 374 per cent and 134 per cent respectively.
- (d) Although a period of more than 06 months had elapsed since the purchase of sewing machines, foot operated potter's wheels and clay processing machines valued at Rs. 2,546,040 in the year under review for use of the programmes for developing the craftsmen's villages, action had not been taken up to June 2017 to distribute those items among the craftsmen.

4.3 Idle and Underutilized Assets

The following observations are made.

- (a) Three buildings and 11 trade stalls of the Sigiriya Crafts Village being administered by the National Crafts Council, had remained idle over a period of more than 2 years without being made use of.
- (b) As 2 vehicles released by the Ministry Of Rural Economic Affairs to the National Crafts Council on temporary basis on 09 June 2015, had remained unsuitable for running since the date of release, the vehicles had been parked at the premises of the Head Office and remained idle.
- (c) An amount of 97.92 kilograms of silver valued at Rs. 13,218,660 purchased from the provisions of the Ministry during 2007-2010 to be given to silversmiths, had remained idle for a period of more than 07 years. According to the Board Paper, No. NCC/BC/2017/01/04, dated 18 January 2017, it had been proposed to distribute the said stock of silver among the silversmiths under the management of scarce elements, but no action whatsoever had been taken in that connection up to 31 May 2017.
- (d) A bank balance totalling Rs.179,864 existed in 02 state bank current accounts, had remained idle with no transactions performed thereon.

4.4 Commencement of Projects on Lands /Property not properly vested

A sum of Rs. 1,191,324 had been spent in the year 2016 for the repairs of the premises of the Central Provincial Project situated in the premises of the Polgolla Textile Project belonging to the Ministry of Education which does not legally belong to the Crafts Council.

4.5 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 234. Three posts in the senior level, 01 in the secondary level, and 30 posts in the tertiary level had remained vacant. The approved cadre of the primary level had been 21, but the actual cadre had been 27, thus an excess of 06 employees had existed.
- (b) 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.

4.6 Procurement and Contract Process

The following observations are made.

- (a) Goods and services valued at Rs. 461,999 had been obtained in 3 instances during the year under review without following the Procurement Procedure.
- (b) The assistance of the Technical Evaluation Committee appointed by the secretary to the Ministry had not been obtained when purchasing the goods and services for the handicrafts exhibition held in the year under review. Instead, goods and services valued at Rs. 3,264,237 had been purchased on the recommendations of a Technical Evaluation Committee appointed for media promotion activities.
- (c) According to Guideline 2.14.1 of the Procurement Guideline, No 08 of the National Procurement Agency-2006, and Supplement, No. 28 to the Procurement Guidelines, dated 04 July 2014, the supplier should be selected after calling for not less than 03 sealed quotations. However, quotations had been called through Yellow Pages for purchasing goods and services valued at Rs. 2,681,575 in respect of the national handicraft competition and exhibition-2016. However, as 02 quotations out of the 03 received, had been turned down, the procurement contract had been awarded to a private company without calling for tenders again.

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 31 March 2017.

5.2 Budgetary Control

Variances ranging from 36 per cent to 194 per cent were observed between the provisions and the actuals in respect of 06 Objects in the year under review. Furthermore, expenses had exceeded provisions by 844 per cent relating to one capital programme, whilst the provision made for a capital object had been saved by 100 per cent. Hence, it was observed that the budget had not been made use of as an effective instrument of financial control.

5.3 Unresolved Audit Paragraphs

The following observations are made.

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 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
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(a) Financial Control	Non-recovery of receivable balances, maintenance of idle 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) Control of Debtors and Creditors	Non-recovery of outstanding loan balances, and failure to take action to settle the payable balances.