

## **National Design Centre – 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the **National Design Centre** for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and the Finance Act No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Centre as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Centre’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Centre or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Centre’s financial reporting process.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Centre is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Fund.

#### **1.4 Scope of Audit**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Centre's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Centre to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Centre, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Centre has complied with applicable written law, or other general or special directions issued by the governing body of the Centre;
- Whether the Centre has performed according to its powers, functions and duties; and
- Whether the resources of the Centre had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Financial Statements**

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### **1.5.1 Internal Control over the preparation of financial statements**

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Centre is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

Audit Observation	Comments of the Management	Recommendation
The Centre had not maintained the Contract Advances Register, Contract Expenditure Retaining Register and Work-in-Progress Register relating to the construction of Head Office building as at 31 December 2018.	A decision has been reached to prepare these registers.	These registers relating to the contract administration should be properly maintained.

### 1.5.2 Un-reconciled Control Accounts or Reports

Item	Value as per the Financial Statements	Value as per the Corresponding Reports	Difference	Comments of the Management	Recommendation
	Rs.	Rs.	Rs.		
Fixed Assets	94,355,913	76,116,899	18,239,014	Non-elimination of disposed assets from the books had resulted in this difference.	Differences should be identified and settled.

### 1.5.3 Lack of Documentary Evidence for Audit

Item	Amount	Evidence not furnished	Comments of the Management	Recommendation
	Rs.			
Trade and other receivable balances	16,500,578	Balance confirmations	Although the balance confirmation letters had been requested, there were not received.	Action should be taken to obtain balance confirmation letters.
Trade and other receivable balances	5,040,775	Balance confirmations	Although the balance confirmation letters had been requested, there were not received.	Action should be taken to obtain balance confirmation letters.

## 1.6 Accounts Receivable and Payable

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### 1.6.1 Receivables

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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The trade and other receivable balances totalling Rs.16,500,578 as at the end of the year under review included the balances totalling Rs.14,881,063 relating to the period less than one year, Rs. 615,776 relating to the period from 01 to 02 years, Rs.11,694 relating to the period from 02 to 03 years and balances of Rs.992,044 relating to the period of 03 years and exceeding 03 years. Nevertheless, action had not been taken to settle these outstanding loan balances.	Action will be taken to settle these moneys receivable.	Action should be taken to recover the moneys receivable.

### 1.6.2 Payables

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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The trade and other payable balances totalling Rs.5,040,775 as at the end of the year under review included the balances totalling Rs.3,980,543 relating to the period less than one year, Rs. 750,225 relating to the period from 01 to 02 years and the balances totalling Rs.310,007 relating to the period of exceeding 03 years. Nevertheless, action had not been taken to settle these old loan balances.	Action will be taken to look into this matter and settle the same.	Action should be taken to substantiate the accuracy of payable balances and settle the same.

## 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations Etc	Non-compliance	Comments of the Management	Recommendation
(a) Paragraph (a) and (b) of Sub-section 7 of Section 13 of the Finance Act, No.38 of 1971.	Replies for the Management Audit Report of the Centre for the year 2016 had not been submitted in accordance with this Section.	Action will be taken to submit replies to the Report, 2016 immediately.	In terms of the Finance Act, replies should be furnished within 03 months.
(b) Part iv of the National Craft Council Allied Institution Act, No.35 of 1982.	(i) Section 82 (a) Although it had been planned to carry out 03 researches by allocating provisions of Rs.1,160,000 during the year under review relating to the substitution of rare materials, and new production process for the improvement of knowledge of the craftsmen, the colouring of red clay based products only had been done spending Rs.536,000 and other 02 researches had not been completed.	These activities could not be completed during the year 2018 due to numerous reasons.	Action should be taken to achieve targets included in the Action Plan within the relevant year.
(ii) Section 82 (b)	Under the popularization of handicrafts and development of market both in Sri Lanka and abroad for the handicrafts, 07 projects had been planned to be implemented spending	Relevant details are presented herewith.	Documentary evidence should be presented to the Audit at the time of carrying out auditing and adequate documentary evidence should be furnished.

provisions of Rs.10,400,000 during the year under review. Five of them had been successfully implemented and despite being spent provisions on remaining 02 activities, the financial and physical progress thereof had not been furnished to Audit in writing. As such, performance of those activities could not be evaluated.

Section 82 (f)

The Centre had failed to implement the process of issuing standards certificates for materials even up to 31 December 2018.

Action will be taken to implement the relevant process from the year 2019.

Activities assigned by the Act should be carried out as planned.

(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

(i) Financial Regulation 128 (1)  
(b)

Although the relevant documents should be examined, recommended an approved before making a particular payment, prior to make payment for the second bill totalling Rs.17,047,940 relating to the building constructions, the Bill Of Quantity , total summery sheet and main summery sheets had not been thus certified.

Each summery sheet was not certified. Total value had to be certified.

Payments should be made only upon granting approval after examining the bills.

- (d) Section 5 of Reference 8.12 of the Procurement Guidelines No.08 dated 25 January 2006. In making payments for VAT relating to the construction of Head Office building, action had not been taken to acknowledge the Commissioner General of Inland Revenue on the payment of VAT totalling Rs.3,256,772 with a copy to the Auditor General. As pointed out, action will be taken to submit the details to the Auditor General. Action should be taken in accordance with the circular.
- (e) Section 6.5.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003. The Centre had not taken steps to table in Parliament its Annual Reports for the years 2016 and 2017. The Annual Report for the year 2016 had been forwarded to the Line Ministry and action will be taken to submit the relevant report for the year 2017. Action should be taken in accordance with the circular.

## 2 Financial Result

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### 2.1 Financial Review

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The operations of the Centre during the year under review had resulted in a deficit of Rs.7,002,071 as against the surplus of Rs.7,671,395 of the preceding year, thus observing a deterioration of Rs.14,673,466 of the financial result. The decrease in the total income by Rs.9,651,005 and increase in the total operating expenditure by Rs.1,891,533 had mainly attributed to the above deterioration of the financial result.

## 3. Operating Review

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### 3.1 Uneconomic Transactions

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Audit Observation	Comments of the Management	Recommendation
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The Centre had printed 2,500 catalogues at a cost of Rs.235,000 for the “YugayataNimawum” exhibition in the year 2018. However, action had not been taken to print and distribute those catalogues among the craftsmen, guests and the general public before the end of the exhibition and as such, the above expenditure was observed as an uneconomic expenditure.	Remaining 2350 catalogues have been stored in the stores and they are due to be distributed in future.	Since the catalogues had been printed after completion of the purpose, it had not been possible to use them for the expected purpose. An order should be placed ahead of adequate time.



### 3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Under the Entrepreneurship Village Development and Women’s Entrepreneurship Development Programme, it had been planned to provide training for 477 craftsmen by using provisions of Rs.2,700,000 through the new creation and capacity development programmes. Nevertheless, training had been provided for 256 craftsmen by spending Rs.1,500,000. Accordingly, physical progress of this project stood at 54 per cent.</p>	<p>Action was not taken to provide trainings in the areas where the training programmes had been implemented by another means at the time of implementing this programme.</p>	<p>Since a longer period had been taken for preparation and implementation of training programmes, targets had not become realistic. Achievable plans should be prepared and implemented expeditiously.</p>
<p>(b) In the implementation of the United Nation Development Programme the Centre had credited the funds received thereon to a current account. By using the balance remained in the above current account, a sum of Rs.5,731,750 had been paid to the employees of the Centre as an incentive from the year 2013 to 2018 without obtaining approval of the Department of Management Services and the General Treasury.</p>	<p>Payments have been made by obtaining approval of the Board of Control. Payment of incentive has been discontinued after the year 2018.</p>	<p>After being prepared a formal evaluation system and obtained the approval from the Treasury, action should be taken to make payments.</p>

### 3.3 Transactions of Contentious Nature

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The present Director of the Centre had acted in the capacity of Secretary of the Board of Director. Even though the Committee on Public Enterprises held on 11 March 2019 had issued directive to make recruitments within a period of 03 months with the approval of the Department of Management Services, action had not been taken to recruit a Secretary in accordance with those directives.	Action will be taken to make recruitment to the post of Secretary after receiving the approval of the Department of Management Services.	Action had not been taken to make recruitments within a period of 03 months in terms of directives of the Committee on Public Enterprises. Action should be immediately taken in accordance with those instructions.

### 3.4 Utilization of Funds

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Since expenditure on projects had not been properly planned in advance, funds ranging from Rs.17,508,753 to Rs.11,835,233 out of the funds received for 02 foreign aids projects named Oxfam and the United Nations Development Programme (UNDP) had been retained underutilized in a bank current account throughout the year under review without being used for any effective purpose.	The Board of Control had taken this matter into discussions and instructions have been received to prepare a project report in order to utilize those funds in an effective purpose.	These funds which have been retained idle in a current account over a number of years should be utilized in an effective purpose.

### 3.5 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
<p>Eight sewing machines purchased at a cost totalling Rs.335,272 for distributing among the trainees in the Kegalle district and Batticaloa district under the Livelihood Development Project had been retained in the stores of the Centre for more than a period of one year as an idled assets without being used for productive purpose even by 12 June 2019.</p>	<p>These 08 machines have been handed over to the Storekeeper and they are in the custody of the stores.</p>	<p>Action should be taken to distribute these idled 08 machines among the trained craftsmen after being properly identified them.</p>

### 3.6 Procurement Management

Audit Observation	Comments of the Management	Recommendation
<p>(a) In terms of Section 2.3.1(b) of the National Procurement Guidelines No.08 dated 25 January 2006, the entity should finalize land acquisition activities before making request for the appointment of Procurement Committee. Nevertheless, without being so acquired lands, the Center had paid sums totalling Rs.30,913,819 as at 31 December 2018 for the construction of a building.</p>	<p>Action is being taken relating to the acquisition of land.</p>	<p>Acquisition of land should be completed before construction of the buildings.</p>
<p>(b) In terms of Section 4.2.3 of the above Circular Guidelines, the Letter of Acceptance should be issued within 05 weeks from the close of submission of the bids, whereas the Centre had taken a period of 03 months to issue that letter for the above purpose.</p>	<p>Since a considerable period of time had to be taken for evaluation of bids, a period of 03 months had been spent to issue the Letter of Acceptance .</p>	<p>Action should be taken in terms of the Circulars.</p>

- (c) In terms of Section 8.9.1 (b) of the above Circular, a contract agreement should be entered into for goods or service contract exceeding Rs.500,000 in value. Nevertheless, in the purchase of 304 sewing machines at a cost totalling Rs.12,056,576 by the Centre from a private institution for the programme on upgrading the living standard, a written agreement had not been entered into and without being entered in an inventory, those machines had been handed over to the Divisional Secretariats in April and June 2018.
- Sewing machines have been directly handed over to the Divisional Secretary. An agreement has not been entered into regarding this matter.
- Action should be taken in terms of the Circulars.
- (d) In making payments for the above second bill, relevant payments had been made without being prepared, checked and certified the price variation register relating to the price variation of Rs.506,417 by the consultancy institute.
- This matter was enquired from the consultancy institute and its answer was that when certifying the payments, all other documents become the subsidiary documents.
- In terms of the Circulars, payments should be made once all the documents, bills are checked and certified.

### 3.7 Human Resource Management

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Audit Observation -----	Comments of the Management -----	Recommendation -----
Although the approved cadre of the Centre as at the end of the year under review stood at 113, actual cadre was 84. It was accordingly observed that there was a shortage of 25 staff members of secondary and tertiary levels in comparing approved cadre with the actual cadre. This shortage had attributed to dysfunction the sections such as Internal Audit Division.	A number of vacancies had created due to retiring and resigning the employees during the year. Recruitments had been temporarily suspended owing to the elections and as a result, considerable delays occurred in the recruitment activities. Action is being taken to make recruitments by calling for applications from the qualified persons.	Action should be taken to recruit suitable staff for the approved post according to the scheme of recruitment.

#### **4. Accountability and Good Governance**

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##### **4.1 Internal Audit**

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
An officer had been recruited for the Internal Audit Division in November 2017 and that officer had resigned on 07 December 2018. The staff had not been attached to that Division and the Accounting Officer of the Centre had been appointed to act in the post on 21 January 2019 until recruitment is made for the post of Internal Auditor. Therefore, it had not been carry out the internal audit activities as planned.	An officer has been appointed to act in the post at present and action is being taken to recruit an officer to that post and to recruit a Management Assistant to this Division in future.	Internal audit activities should be carried out in accordance with the Internal Audit Plan.