

**1. Financial Statements**  
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**1.1 Qualified Opinion**  
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The audit of financial statements of the National Crafts Council for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, statement of changes in equity and the 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, the Finance Act, No. 38 of 1971. My comments and observations which I consider should be tabled in 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 of the Council give a true and fair view of the financial position of the institute as at 31 December 2020, and of its financial performance and its 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 Council'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 intends to liquidate the Council or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Council's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Council 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 Institute.

#### **1.4 Audit Scope (Responsibility of Auditor for the Financial Statements)**

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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 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 skepticism 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 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 Institute'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 and, if such disclosures are inadequate, to modify my opinion. However, future events or conditions may cause the Institute 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 Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Council has complied with applicable written law, or other general or special directions issued by the governing body of the Council;
- Whether the Council has performed according to its powers, functions and duties; and
- Whether the resources of the Council had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

### 1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
According to Sri Lanka Public Sector Accounting Standards 07 (47), an annual revaluation is required for property, plant and equipment items with significant changes in reasonable value. However, the council had not conducted a revaluation of existing assets for a long time.	Revaluation Committees will be appointed in accordance with Asset Management Circular No. 04/2018 and action will be taken to revalue all assets.	An annual revaluation should be made for property, plant and equipment items that have significant changes in value.

### 1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) According to the financial statements as at 31 December 2020, It was observed a difference of Rs. 37,958,623 in the balances of 08 fixed assets compared to the fixed asset schedules. The relevant asset survey reports were not submitted for audit to monitor or ascertain the valuation of these assets in any other way.	Since the difference in fixed assets is being continued for a long time, the difference cannot be traced and all the assets should be revaluated progressively and recorded in the accounts.	Action should be taken to identify differences between fixed assets and schedules and to revalue and settle assets.

- (b) Assets were overstated by Rs. 1,635,380 due to recurrent expenditure of that amount being accounted for as capital expenditure, and the deficiency for the year was less accounted than that amount. That these expenditures were capitalized as they will be increased quantitatively as well as the assets value. Only expenses in the form of capital should be added to the asset.
- (c) The total amount of Rs. 1,006,346 comprising of Rs. 888,834 withheld from contractors for building construction and Rs. 117,512 withheld for machinery repairs had not been accounted for as assets during the year under review. Since it is uncertain to pay the full amount out of these withholdings, that they were not capitalized, and upon completion of the relevant liability period, the withheld money will be capitalized and accounted as assets when making payment of this withheld amount. Cash withheld from contractors for the year should be treated as liabilities as well as assets.

#### 1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

	<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Paragraph 9, Part II of the Ministry of Finance Circular no. 2020/1 dated 28 August 2020	06 officers who were required to post bail on the Public Trustee of the Crafts Council had not taken action to post bail.	The officers who have to deposit the bail have been identified and the necessary instructions have been given to take the necessary steps to post the bail in the due course.	Arrangements should be made to obtain bail from the officers who are required to post bail
(b)	Financial Regulation no. 756(6) and paragraph 11.3 of the Public Finance Circular no. 01/2020 dated 28 August 2020	In the year 2019, out of 109 training centers of the council, 72 centers had not been surveyed, and surveys for 2020 had not been conducted.	This situation has arisen due to the risk of going outside areas during the corona epidemic when conducting the relevant survey in 2019 and action will be taken to survey the relevant Training Centers for 2020 and submit the relevant reports to the audit.	Surveys should be conducted in accordance with Financial Regulations and circulars.

- (c) Public Enterprise Circular No. PED 17 dated 28 October 2003
- Even though two officers had to submit their applications to the Department of Public Enterprises and obtain prior approval for participating in the 34th Suraj Kund International Handicrafts Exhibition held in India from 01 February to 16 February 2020,, without doing so, Rs. 783,230 had been spent on airfare, combined allowances, and other expenses.
- Even though a letter was sent to the Secretary of the Ministry of Small and Medium Scale Enterprise Development on 17.07.2020 to seek clarification and advice from the Department of National Budget on whether approval should be obtained from the Department of National Budget separately for each foreign exhibition despite the Hon. Minister of Finance has approved to allocate funds in the action plan for foreign sales exhibitions and to bear the relevant expenses from the capital fund, no reply was received; therefore, a letter was resent to the Secretary of the State Ministry of for Cane, Brass, Clay, Furniture and Rural Industries on 04.12.2020.
- Accordingly, the relevant letter had been forwarded to the Director General of the Department of National Budget by the Additional Secretary of the Ministry for advice.
- According to this circular, participation in foreign tours should be done only after prior application and obtaining approval.

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| (d) | According to the Section 6.5.3 of the Public Enterprise Circular No. PED 12 dated 02 June 2003 on Good Governance. | Even though the annual report should be tabled in Parliament within 150 days of the end of the financial year, no action had been taken to table the year 2018 Annual report in the Parliament.  | Annual Report has been submitted to the Ministry                    | Annual Reports should be tabled in the Parliament in accordance with the Circular.   |
| (e) | Public Finance Circular No. 01/2020 dated 28 August 2020 and No. 3/2015 dated 14 July 2015                         | Even though it has been stated that the Staff Officer who obtained the Interim imprest should repay the interim imprest within 10 days after completion of the work, There were 30 instances, where periods from 02 weeks to 03 months had been taken for settlement of advances and interim imprests were obtained again before settlement of interim settlement. | Actions are being taken to minimize such a situation in due course. | In terms of this circular, action should be taken to settle the advance as soon as the work is completed after making the advance. |

## 2. Financial Review

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### 2.1 Financial Result

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The operating result of the year under review amounted to a deficit of Rs. 1,321,142 and the corresponding deficit in the preceding year amounted to Rs. 688,033. Therefore a deterioration amounting to Rs. 633,109 of the financial result was observed. The deterioration had mainly been attributed by decrease in total revenue by Rs. 42,801,274.

### 3. Operational Review

#### 3.1 Operational Inefficiencies

	<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	<p>Kavantissapura Industrial Village was established in 16187 hectares state land in the Kavantissapura Grama Niladhari Division belongs to the Tissamaharama Divisional Secretariat division in Hambantota District. Even though it has been informed that action should be taken to take over this land on long-term basis for a period of 30 years in terms of the letter dated 28 November 2013 of the Land Commissioner Department, So far that work has not been done. Rs. 720,000 in installments and Rs. 60,000 in fines were paid to the Tissamaharama Divisional Secretary in the year 2020, and Even though a total of Rs. 1,656,869 had been spent as Rs. 876,869 for the relevant maintenance, a legal lease agreement had not been signed, and this village had not been used for an effective investment.</p>	<p>2021 Hambantota Kavantissapura Village is planned to be maintained as a production village in due course</p>	<p>A legal lease agreement should be signed and the village must be used for productive investment.</p>
(b)	<p>Provisions of Rs. 4,000,000 had been made for year 2020 under the Programme for Transformation of Villages to Workplaces to identify all handicraft villages and to develop them under all sectors i.e. infrastructure facilities, machineries, Raw Materials, Equipment,</p>	<p>Allocations had been made to develop Alawala and Biyagama villages under the development programmes in year 2020. Out of it, Rs. 1,584,000 was spent for roofing sheets to construct a workshop for</p>	<p>The goals of the program should be met.</p>

Product Promotion craftsmen in Alavala Programmes, market village and Rs. 79200 requirements, and Rs. was spent for give 3,431,018 out of it had been cement required for spent. Plans had been made to construct workshops for develop 02 villages under this Radhawadunna Cane situation. However, an Village and actions are amount of Rs. 1,663,200 had being taken to construct been spent to purchase sheets those workshops with and cements for 1000 their labor contribution. registered craftsmen live in Alavila village. An amount of Rs. 348,119 was spent for this item distribution event in year 2021.

- (c) The cheque no. 399370 v No answers given. Arrangements should be dated 28 December 2020 made to fulfill the needs of valued Rs. 81,380 had been submitted to the selected bidder on 21 January 2021 to obtain the equipment requested by four craftsmen in the year 2019 registered under the Badulla district Crafts Council office in Uva Province. The goods had not been delivered to the relevant craftsmen as at 29 January 2021 also, for more than a year. In addition to this, there were occasions where bids had been called before making the requests for the equipment by craftsmen, who had applied for, in the Galle, Matara, and Kandy districts.
- (d) Rs. 414,410 was spent to The Assistant Director The project should be plant 1,000 flax seedlings of the Southern Province followed up and maintained under the raw material has been instructed to as scheduled. planting programme at take necessary action to Kavantissapura Saviya maintain the the Hambantota Raw Marketing Village. Even Cultivation. though the maintenance expenses of Rs. 40,000 had not been included in the estimated cost, it had been



observed in a physical examination conducted by a council official that the seedlings had withered two weeks after planting due to lack of maintenance. Even though 4,000 flax seedlings had been planted in Alokagama in 2017, it had been observed that there were no flax seedlings physically by the end of the year 2019 in the field inspection conducted by the internal audit.

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| (e) | <p>Even though 185 employees of the Handicrafts Board had been attached to the Crafts Council by the Cabinet Decision for the Cabinet Paper no. 08/2322/349/015 dated 23 December 2008, no action had been taken to legally take over the board's inventory items. No action had been taken to include the annual income, expenditure and assets of the training centers in the annual financial statements. However, the Crafts Council spends Rs. 46,346,838 annually on 87 officers in charge of the sites.</p> | <p>After handing over the employees of the Handicrafts Board to the National Crafts Council, that an item other than fixed assets had been transferred by an appointed committee That an item other than fixed assets had been transferred by an appointed committee and this amount is used by the government to pay a permanent salary to the officers in charge of the training centers as they are permanent employees of the institute and as they are engaged in training consultation work.</p> | <p>Necessary measures should be taken to acquire inventory items legally, while action should be taken to include annual income, expenses, assets, and liabilities of the training centers in their annual financial statements.</p> |
| (f) | <p>Even though an allocation of Rs. 3 million had been made to provide facilities training centers for the year 2020, the amount spent out of this was Rs. 1,869,051. Allocation of provisions had been reduced by Rs. 2 million compared to year 2019. The provision of Rs. 500,000 provided for the</p>  | <p>Provisions were made from time to time by the Interim Account for the year 2020. However, that the annual estimate was made on the amount finally received and the provisions for the last four months on not</p>   | <p>Action should be taken to make maximum use of the provisions and to implement training at all centers.</p>  |

training of trainers had not been spent. Even though the Shilpa Sabha had 112 training centers, only 41 of them had conducted training courses

providing those provisions by the Treasury and accordingly, the allocations for the year 2020 have been reduced compared to 2019 ,and even though allocations were made for the training of trainers, the training could not be carried out due to the situation prevailed in the country.

### 3.2 Transactions of Contentious Nature

Audit Observation	Management Comment	Recommendation
The annual income of 23 training centers in the North Western Province and Polonnaruwa District is Rs. 2,056,420, and the cost was Rs. 2,033,565. Even though a technical salary of Rs. 1,847,261 included in this expenditure paid to the apprentices, formal approval had not been obtained for that.	Apprentices who complete the training at any training center re-engaged in their production activities as technicians centering these training centers, and income from the sale of those products are credited to the center's account, and 10% of this amount is withheld and the balance is paid as technical salary with the formal approval of the Provincial Officers.	All payments should be made upon formal approval

### 3.3 Procurement Management

Audit Observation	Management Comment	Recommendation
(a) Even though a certificate of completion should be obtained stating that the work has been completed in accordance with the specifications and conditions of the work in terms of the paragraph 8.12.2 of the Procurement Guidelines No. 08 dated 25 January 2006, A total value of Rs. 1,904,844, the cost of maintenance of the conference	No answers	The guideline should be followed.

room of the head office, had been accounted as construction cost without obtaining such a certificate.

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| (b) | In terms of Section 5.4.8 of the National Water Supply Guidelines No. 08 of 25 January 2006, performance securities for head office conference hall renovation, security services, and cleaning services had not been obtained in relation to the deadline.   | No answers  | Action should be taken in accordance with the guidelines and the performance securities relevant to insurance should be obtained for the relevant period.  |
| (c) | An amount of Rs. 2,475,000 had been spent to obtain electric saccades by 31 December 2020 under the programme of introducing new technology for craftsmen, and Payments had been made prior to receipt of the relevant goods without taking actions to make payment after certifying that the goods are contracts provided under Sections 8.12.2 and 8.12.3 of the Procurement Guidelines in accordance with the Provisions. Despite the Contractor has requested that the relevant delivery date be 15 February 2021, Payments were approved by 31 December 2020. Performance security of Rs.123,750 / - had not been obtained for this Contract as per Section 5.4.8 of the Procurement Guidelines. | This supplier has previously manufactured electric saccade for the National Crafts Council previously also, and he has done the relevant work based on the trust he has built with this institution, and instructions were given to follow the procurement process in due course. | Payments should not be made prior to ensuring compliance with the terms and conditions of the contract, as well as performance securities should be obtained in accordance with the guidelines.                  |
| (d) | The contract for repairing 18 machine items at Waragoda Ceramic Training Center had been ended upon payment of Rs. 2,232,737 for work other than the incomplete work of 35% of the contract, valued Rs. 3,615,250. A warranty period or maintenance period for this   | Repairing of electric saccades, item No. 18 of the order placed to repair 18 machines at Waragoda Training Center is to be completed in the year 2021.  | Payment should not be made before the completion of all work in accordance with the terms of the agreement, and since the cost of repairs is high, the retention amount is insufficient and a warranty period or |

repaired equipment had not been obtained by the Council, and the bidder had not submitted performance security of Rs.180,762 in terms of the Section 5.4.8 of the Procurement Guideline

maintenance period should be obtained for the equipment.

**3.4 Human Resources Management**

Audit Observation	Management Comment	Recommendation
<p>The approved staff of the National Crafts Council was 262 and the actual staff was 207 and there were 62 vacancies. Even though an acting appointment can be given only temporarily until a permanent appointment is made and it should be limited to a maximum of 3 months in terms of paragraph 13.3 of the Establishments Code, Six officers have been appointed to 4 posts, acting for about two years.</p>	<p>No answers</p>	<p>Top management should take action to recruit approved and adequate staff to fulfill the objectives of the institute without compromising the craftsmen.</p>

**4. Accountability and Good Governance**

**4.1. Internal Audit**

Audit Observation	Management Comment	Recommendation
<p>During the year under review, 07 internal audit reports had been issued instead of issuing audit queries. Even though it had been planned to issue 04 internal circulars in this regard, these circulars had not been issued as at the date of this report.</p>	<p>No answers</p>	<p>Circulars based on internal audit reports should be issued promptly and management should take action to use those findings for the betterment of the institute.</p>

#### 4.2 Budgetary Control

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
When the approved budget document for the year 2020 was examined along with the financial statements, the total expenditure in respect of 06 expenditure items exceeded the estimated value of Rs. 9,096,034. That difference ranged from 29 percent to 334 percent. Hence the budget had not been used as an effective management control agent.	Officials have been informed not to spend more than the budgeted limit for the year 2021.	Action should be taken to bear the expenses within the budget estimate limits.