

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Crafts Council (“Council) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the 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 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 Council as at 31 December 2022, 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

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

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 intend 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 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 Council.

1.4 Responsibility of Auditor for the Audit of the financial statements

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 Council'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 Council'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 Council 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 Audit Observations on the preparation of 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
In accordance with Section 48 of Sri Lanka Public Sector Accounting Standard No. 03, the prior period error correction of Rs.13,664,002 was not presented in the financial statements of the year under review by retrospective restatement as at 31 December 2021.	It has been informed that it will be corrected in the year 2023.	Actions should be taken according to the accounting standards.

1.5.2 Accounting Deficiencies

Audit issue	Management Comment	Recommendation
(a) Rs.2,345,300 incurred as repair and maintenance expenses of 02 vehicles, which the Council does not have legal ownership of, was capitalized under property plant and equipment.	It was informed that, the amount Rs.2,345,300 which was the capital value related to 02 vehicles will be removed from the assets account.	Expenses should be identified accurately and accounted for in the financial statements.
(b) The income, expenses and data relating to bank balances of the crafts training centers owned by Craft Council had not been disclosed in the financial	Accounts are opened only to facilitate transactions in crafts training centers and a report including income, expenditure and bank balances was submitted along with the financial	All bank account details should be disclosed in the financial statements.

statements and the bank balances statements.
value of Rs.2,861,581 of 83
centers had not been disclosed.

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| (c) | As the assets of Rs.46,298,422 belonging to the Sri Lanka Handicrafts Board were transferred to the National Crafts Council in 2008 on the cabinet approval; the value has been removed from the accounts of the Sri Lanka Handicrafts Board, but not included in the Council's financial statements. | The relevant assets will be accounted for in the financial statements. | Actions should be taken for making adjustments to the financial statements. |
| (d) | The revalued amount of Rs.2,800,000 of 2 vehicles owned by the Ministry of Rural Economic Affairs had been shown in the accounts. | It will be corrected in the year 2023. | -do- |
| (e) | The advance amount of Rs.3,850,740 paid to the Industrial Development Board for the production of 3 cane machines which had not been received but accounted as fixed assets in financial statements and depreciation of Rs.384,230 had also been accounted for it. | Since these assets have not been given to the National Craft Council so far, efforts are being made to recover the relevant amount. Accordingly, the accounts of the year 2023 have been corrected by removing these assets from the fixed assets account and adjusting them to the accounts receivable account. | -do- |
| (f) | Depreciation provisions relating to 15 fixed assets were under-accounted by Rs.399, 011. | It was informed that, it will be corrected in the year 2023. | Depreciation should be properly calculated and accounted for. |

1.5.3 Unreconciled Control Accounts or Records

Item	As per Financial Statements Rs.	As per corresponding record Rs.	Difference Rs.	Management Comment	Recommendation
(a) Property plant and equipment	208,155,168	189,315,144	18,840,024	After revaluation of assets, the actions will be taken to account the correct	Actions should be taken to identify and resolve differences.

balances.

(b) Closing stocks of Lakshilpa Showrooms.	10,672,970	14,965,378	4,022,408	All purchases are included under Lakshilpa purchases	-do-
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1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit issue	Management Comment	Recommendation
(a)	A balance of Rs.2,432,122 owed to the Council for the goods sold to the Sri Lanka Handicrafts Board in 2014 and a balance of Rs.84,600 owed by the Council to that institution had being brought forward in the financial statements and the Council had failed to settle the said balances in the year under review.	A detailed letter has been sent on 10 April 2023 regarding the amount due from Laksala. Payable balances will be dealt with further as per the instructions of the Audit and Management Committee.	Arrangements should be made to recover the outstanding balances promptly.
(b)	An advance of Rs.500,000 had been paid to reserve the Bandaranaike Conference Hall for the Presidential Handicrafts Exhibition in 2021. Nevertheless, the handicrafts exhibition was not held for the years 2021 and 2022, and the deposit money had not been refunded by the audited date.	The money will be used to allocate space for the International Handicrafts Exhibition scheduled to be held from September 11 to 18, 2023.	If the relevant work is not performed, arrangements should be made to receive the deposit within the prescribed period.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Financial Regulation 371 (5) as amended by paragraph 9 of Public Finance Circular No. 01/2020 dated 28 August 2020.	After issuing an interim advance, although the interim advance should be settled again within ten days after the completion of the work, the interim advances worth Rs.1,556,500 issued to the officers of the Council on 29 occasions had been settled late.	Instructions have been given to avoid delays and follow the financial regulations.	Actions should be taken as per circular instructions.
(b)	Financial Regulations 756 of the Code of Financial Regulations of the Democratic Socialist Republic	Although the National Crafts Council had presented design items	It was informed that all the remaining goods	Arrangements should be made to get the remaining

of Sri Lanka.

weighing 61.644 kg for the 67th YWCA Diplomatic Charity Bazaar sales promotion program and 55th Diplomatic Red Cross Bazaar trade fair held in Thailand in the year under review, no survey was conducted regarding the remaining items.

have been directed items to the Council immediately. by the embassy to the OTOP CITY – 2022 market program.

- (c) Guideline 5.4.8 of the Code of Procurement Guidelines 2006. No performance security had been obtained from the suppliers for the contract for the purchase of cane machines and the contract for the construction of a chimney for the gas kiln at the Waragoda Ceramic Training Centre. Payments were made with retention of 10 percent in the respective payments. Actions should be done according to procurement guidelines.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.7,877,209 and the corresponding surplus in the preceding year amounted to Rs.10,260,754. Therefore a deterioration amounting to Rs.2,383,545 of the financial result was observed. This deterioration was mainly due to the decrease in total income by Rs.90,040,713, although the total expenditure decreased by Rs.87,657,168.

3. Operational Review

3.1 Identified Losses

	Audit issue	Management Comment	Recommendation
(a)	Out of the 6820 kg stock of copper purchased without a copper refining plan, 3770 kg stock had been stored unsafely in the Center premises. According to the investigation report, it was observed that 2086.50 kg of copper worth Rs.1,301,475, which was unprotected last year, was missing.	This stock of copper wires had been stored in the premises of the institution which met all the safety requirements of a typical government institution.	Actions should be taken to recover the loss from the responsible parties.
(b)	In the contract awarded by the Council for the production of insulators, although the contractor had done the production using the machines and equipment, electricity and water	Arrangements had been made to charge fees for the space and equipment used by this institute.	Fees shall be charged for use of the Centre.

of the Waragoda Ceramic Training Center belonging to the Council, actions had not been taken to reimburse expenses incurred by the Council from the contractor.

3.2 Management Inefficiencies

Audit issue	Management Comment	Recommendation
(a) In the last year and in the year under review, although the National Crafts Council website, which was prepared at a cost of Rs.6,925,622 and Rs.111,012 respectively, was planned to sell products online nationally and internationally, maximum efficiency of using that website was not observed because of the online sales value in the years 2021 and 2022 was Rs. 61,109.	The actions had been taken to solve the problems that have arisen in the sale through Lakshilpa e-website, published advertisements on the face book, informed all the provincial officials, purchased the designs from the handicraftsmen residing in the National Craft Council through the buying committees and arranged to display those designs for the Lakshilpa website.	Actions should be taken to achieve the desired objectives from the website.
(b) Although only 36,000 plants had been planted out of 44,000 flax plants purchased at a cost of Rs.34, 681,964 in the year 2022 for the Mahaweli B project, as the reason for the destruction of 95 percent of the plantation by the date of the audit, it was observed that the lack of proper supervision and maintenance of the project directly affected the failure.	As 95 percent of the saplings planted in Mahaweli B zone had been destroyed in 2022, 4700 palm seeds obtained free of charge from the Palm Development Board have been planted to cover that area with the help of the Sri Lanka Army and the support of the Welikanda Divisional Secretariat.	Government money should be invested sparingly and more effectively.
(c) In the year 2021, the Council established 97 craft societies, but the number of craft clubs established in 2022 is 24. It was 48 percent of the target number of craft societies specified in the Annual Action Plan. They were the fields of clay, lace, brass carving, palm leaves, bamboo, coconut, jewellery, date leaves, wooden and rush and there had no craft clubs been established in relation to flax and cane where the main cultivation projects were implemented.	These cultivation projects have been implemented to benefit craftsmen whose livelihoods are literally at risk due to lack of raw materials. All craft societies relating to the villages where craftsmen engaged in cane and flax industry are widespread have been established.	Actions should be taken to establish craft societies for major cultivation projects.

3.3 Idle or underutilized Property, Plant and Equipment

Audit issue	Management Comment	Recommendation
(a) The Sigiriya Handicraft Village, which is 1.1165 hectares worth Rs.47,750,000 belonging to the Council, remained idle for about 2 ½ years.	12 design display racks were transported and installed in the Lakshilpa shop in Sigiriya Handicraft Village and in addition the relevant name board was also installed. A stock of designs needed for the sale has been purchased and arrangements have been made to open the shop in the future by managing the craft development fund.	Actions should be taken to obtain maximum benefits from the assets.
(b) Although 14 stalls had built in the Hela Art Village near the Muniandi Lake belonging to the National Crafts Council at a total cost of Rs.15,656,700 as Rs.10,282,061 in 2021 and Rs.5,374,639 in 2022, those had not been utilized even by the date of the audit.	It has been informed by the Mayor that the opening of the entire project including the village has been delayed due to the delay in the construction of the adventure park and sanitary facilities.	- do -
(c) Although the Council had paid Rs.8,744,211 for development activities from 2016 to 2022 and Rs.3,072,000 as rents for Kavantissapura village which has been built in 2016 on the financial allocation of Rs. 18,432,042 by the Government of India, this village remained idle even by the date of the audit.	As the arrival of local and foreign tourists was completely limited due to the Easter attack in the country and the Covid epidemic, it was tried to call give the stalls to the craftsmen from Hambantota district.	Actions should be taken to use Kavantissapura village effectively.

3.4 Delays in Projects or Capital Work

Audit issue	Management Comment	Recommendation
93 handicrafts weighing 260 kg in 20 packing boxes had been sent for the Dubai Expo sales promotion program and the unsold stock of handicrafts had not been taken to Crafts Council even though it had been more than 08 months after the sales exhibition.	The rest of the design stock of the Expo 2020 exhibition has now reached the port of Colombo and is being released through the Ceylon Shipping institute.	Arrangements should be made to get the remaining items to the Council immediately.