

## **National Design Centre - 2023**

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### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the National Design Centre (“Centre”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy 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 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, the accompanying financial statements give a true and fair view of the financial position of the Centre as at 31 December 2023, 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 Opinion**

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 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 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 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 Centre.

## 1.4 Auditor's Responsibilities 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 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.
- Obtained 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.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Concluded 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.
- Evaluated 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 Accounts Receivable and payable

### 1.5.1 Accounts Receivable

Audit Observation	Management Comment	Recommendation
The debt balance of Rs.168,485 from an officer who was dismissed in the year 2021 on a disciplinary inquiry order was not recovered.	The outstanding balances have not been paid up to this point due to a complaint being examined in the Labor Tribunal.	Actions should be taken to recover the receivables promptly.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 82(i) of the National Craft Council and Subsidiary Institutions Act No.35 of 1982	Although permission was provided for the operation of laboratories, workshops, and other institutions, the Pirinirmana Educational Institute was not registered as a separate educational institution. However, courses were conducted, and profits were generated by the education sector.	The educational institute had not been registered as a separate entity, and for this purpose, preliminary discussions were held, and a subcommittee has been appointed to carry out the necessary future actions.	Actions should be taken to register the educational institution in accordance with the act.
(b) Paragraph 6.6 of the Operational Manual for State Owned Enterprises introduced by Public Enterprises Circular No.	Although the Draft Annual Report and Financial Statements should be submitted to the Auditor General	The staff shortage and the delay in completing the physical inventory verification contributed to the delay, and action	Financial Statements should be submitted by the specified date in accordance with the circular regulations.

01/2021 dated 16 November 2021. within 60 days after the end of the financial year, the financial statements for the year 2023 had been submitted on 10 May 2024. will be taken to avoid this shortcoming in the coming years.

- (c) Section 2(IV) of Public Administration Circular No. 9/2009 dated 16 April 2009, and Section (a) of Public Administration Circular No. 21/2013 dated 07 October 2013. In 2022 and 2023, overtime and holiday allowances totaling to Rs.1,081,245 had been paid to 13 officers without confirming their attendance and departure through the fingerprint machine. Due to the unavailability of a fingerprint machine, attendance records were not maintained. Currently, action has been taken to implement the use of a fingerprint machine for recording the attendance of staff officers in the education division. Action should be taken to use a fingerprint machine to record the attendance in accordance with the circular instructions.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs.11,739,450 and the corresponding deficit in the preceding year amounted to Rs.7,751,598. Accordingly, a deterioration amounting to Rs.3,987,852 of the financial result was observed. Although the treasury grants had been increased by Rs.20,513,444, the increases in development expenses by Rs.16,787,126 and in depreciation by Rs.6,214,788 were the main reasons for this deterioration.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
Although the CCTV camera system at the head office had been inactive since January 2022, it had not been restored by the audit date of 2 June 2024. An amount of Rs.1,886,005 payable to the supplier was carried forward under non-current liabilities in the financial statements as retention.	Due to a dispute between the Penthouse Institute and the subcontractor, maintenance work was not carried out. Actions are being taken to prepare specifications and proceed with the necessary repairs of the CCTV system through an external organization, using the retention deposit.	The camera system should be immediately restored to operational condition.

### 3.2 Operational Inefficiencies

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Though Rs.8.5 million had been allocated to conduct 29 programs island wide to provide quality training for craftsmen under the project aimed at delivering knowledge on new creations and new technology. Only 17 training programs were held. Although the plan was to introduce 450 new creations to craftsmen through these programs, only 216 new creations were introduced, and 234 creations could not be introduced.	It was not possible to fulfill the tasks due to the lack of capital provisions and the shortage of design development officers in the design sector. Additionally, although 07 programs were planned to be implemented using “UNDP” funds, only 216 new creations could be introduced through the training programs, as the approval of the board of directors could not be obtained.	Plans should be made considering all practical situations and tasks should be carried out in accordance with the planned arrangements.

### 3.3 Uneconomic Transaction

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Although there were 05 senior designers and 02 assistant designers within the institute, Rs.712,000 had been spent to create 16 batik frocks, each costing Rs.44,500, by using an external design institute.	It is essential to obtain the service of a person with specialized educational and professional qualifications in garment design for a national-level fashion design show. Therefore, a service was obtained from an external designer.	The organization should be utilized existing resources effectively to implement projects productively.

### 3.4 Idle or underutilized Property, Plant and Equipment

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) A purification system was installed at a cost of Rs.2,991,720 on 16 December 2021, with the aim of providing common facilities to the craftsmen in the batik production industry. However, during the year under review, the expected objectives were not achieved, and the machine remained idle.	With the recent revival of the batik industry, a water purification unit had been installed with the aim of providing common facilities to entrepreneurs in the area who expected to start new businesses. It is anticipated that the operations of this purification unit will become productive following the	The relevant machine should be utilized to carry out the targeted tasks effectively.

commencement of these new businesses.

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| (b) | The bamboo steamer, valued at Rs.255,000 and owned by the cane and bamboo sector, remained idle in the premises of the centre as of 3 June 2024.  | This machine is used to shape and design required forms through heating and not used continuously. It is supplied according to the needs of the Bamboo and Cane Training Centre. | A suitable methodology should be implemented to maximize the effective use of the machine.      |
| (c) | Finished goods worth Rs.621,395 which purchased during the years 2020 and 2021 for exhibitions, 736 items of finished goods valued at Rs.1,859,866 produced in the workshop at the center and Rs.905,686 worth of non-moving raw materials and finished goods purchased time to time from 2010 to 2022 as of 31 December 2023, were remained idle in the store. | Actions are being taken to correct.  | Actions should be taken to effectively utilize nonmoving raw materials and idle finished goods. |

### 3.5 Under Utilization of Funds

Audit Observation	Management Comment	Recommendation
An amount of Rs.2,312,228 received under the United Nations Development Program for the development of craftsmen had been shown under current liabilities in the financial statements without achieving its objectives.	Due to the COVID-19 pandemic situation and the fuel crisis, the activities that could not be completed. Therefore, it is necessary to identify the craftsmen currently engaged in the industry in the relevant villages and implement the program.	The received funds should be utilized and achieve the objectives.

### 3.6 Delays in Projects or Capital Work

Audit Observation	Management Comment	Recommendation
(a) Rs.900,000 had been allocated to provide handicraft training for vulnerable groups to contribute to the national economy. Although two programs had been planned to hold for giving benefits to 40 trainees, these activities had not	Due to the shortage of Design Development Officers in the Design Department, this training could not be provided. Additionally, the programs could not be conducted	Programs should be planned by considering all practical situations and tasks should be executed in accordance with the plan.

been completed as planned during the year. because the approval from the Board of Directors to release the UNDP fund allocations could not be obtained.

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| (b) | Although a project plan with the aim of providing benefits to 6700 direct and indirect beneficiaries had been prepared by the institution, an analysis to determine how many craftsmen actually received the benefits was not conducted. As a result, it had not been possible to assess whether the objectives of the project plan were achieved. | No answers have been submitted. | A feedback process and information on achievement of expected objectives from the project should be updated. |
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### 3.7 Procurement Management

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
According to section 1.2.1(c) of the Government Procurement Guidelines, it is stated that fair, equal, and maximum opportunities should be provided to qualified and interested parties to participate in procurement. However, the selection of garment designers for the batik fashion show and the diploma certificate awarding ceremony was conducted outside of the procurement guidelines. Additionally, as per section 3.4.3(a) of the Procurement Guidelines, the suppliers had not been registered.	Price quotations have been called from well-known institutions on the yellow and rainbow-colored pages of the telephone directory. Suppliers will be registered starting from the year 2025.	Action should be taken to register suppliers and selected service suppliers in accordance with the procurement guidelines.