

1. Financial Statements

1.1 Basis for Qualified Opinion

The audit of the financial statements of the National Design Centre (“Centre”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 reported 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 2024, 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 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 Audit Scope

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.
- 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 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non-Compliance with the Management Comment reference to the relevant Standard		Recommendation
(a) Even though comparative information for the previous year should be disclosed for all numerical information reported in the financial statements as per paragraph 53 of Sri Lanka Public Sector Accounting Standard No. 01, the Centre had not disclosed comparative information for the statement of changes in equity.	In recording the date, by mistake, it was stated as 01.01.2024 and 31.12.2024 comparatively in the statement of changes in equity and the date of 01.01.2024 should be corrected as 31.12.2023.	As per the Standard, comparative information for the previous year should be disclosed for all numerical information.
(b) Even though adjustments of Rs. 476,598 were made to the cumulative reserve as deductions of Rs. 637,934 and additions of Rs. 160,797 for prior year adjustments, the comparative figures had not been restated in accordance with paragraph 47 of Sri Lanka Public Sector Accounting Standards No. 03 and the required disclosures had not been made in accordance with paragraph 54 of the Standard.	Action will be taken to make accurate comparative information and disclosures in the preparation of accounts in the upcoming years.	Comparative figures should be restated in accordance with the Standard.
(c) Even though the amount of any written down of inventories and all losses on inventories should be recognized as an expense in the period the written down or loss occurs in accordance with paragraph 44 of Sri Lanka Public Sector Accounting Standard No.	Answers have not been given.	According to the Standard, inventory losses should be recognized as an expense in the period in which those occur.

09, the unusable inventories of Rs. 198,792 and the obsolete stock of Rs. 195,481 included in finished goods were deducted from inventory instead of being recognized as expenses.

(d)	In accordance with paragraph 92(a) and (b) of Sri Lanka Public Sector Accounting Standards No. 07, the carrying amount of temporary idle motor vehicle with a cost value of Rs. 5,000,000 and the gross carrying amount of computers and accessories with a cost value of Rs. 11,480,319 that was fully depreciated but still in use were not disclosed in the financial statements.	The computers and accessories are planned to be revalued in the year 2025 and the correct values will be included in the financial statements accordingly.	The carrying amount of temporarily idle and fully depreciated assets should be disclosed in the financial statements as per the Standard.
(e)	Since the capital grants of Rs.3,387,580 received from the Treasury during the year under review were not recognized as income from non-exchange transactions for the year and were added to the cumulative reserve in the statement of changes in equity in accordance with Sri Lanka Public Sector Accounting Standard No. 11, the deficit for the year under review had increased by the same amount. Further, the policy for recognizing Treasury grants of Rs. 99,805,579 and Ministry grants of Rs. 4,946,059 had not been disclosed.	Action will be taken as per Standard No. 11 from the year 2025.	All grants should be recognized as income as per the Standard.
(f)	Even though remuneration and other payments made to key management personnel should be disclosed in the financial statements in accordance with paragraph 34 of Sri Lanka Public Sector Accounting Standard No. 14, the information on the key management persons of the Centre had not been disclosed. In	The allowances paid to the Chairman of the Institution and payments made to the Board of Directors have been included. Information on the Board of Directors of the Centre and information on the key management person have been included in the control report.	As per the Standard, transactions with related parties should be disclosed separately in the financial statements.

accordance with paragraph 27 of the Standard, the financial statements had not disclosed the transactions with related parties or the absence of such transactions.

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

	Reference to Non-compliance Laws, Rules Regulations etc.	Management Comment	Recommendation	
(a)	Sections 2(1) and 102 of the Inland Revenue Act, No. 24 of 2017	Action has not been taken to register for income tax or to obtain the tax exemption.	It has been informed to the Inland Revenue Department on 18 February 2014 that it is an institution operating on the basis of provisions received from the General Treasury.	Action should be taken to register for tax or obtain the tax exemption in accordance with the Inland Revenue Act.
(b)	Paragraph 6.6 of the Operational Manual for State Owned Enterprises introduced by the Public Enterprises Circular No. 01/2021 dated 16 November 2021.	The financial statements for the year 2024 were submitted on 30 June 2025 with an 122 days late, and the draft Annual Report along with the financial statements had not been submitted.	Action will be taken to overcome the shortcomings that occurred and provide the financial statements on the due date in the year 2025.	Financial statements should be submitted on the due date as per the Circular.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a deficit of Rs. 14,158,176, and the corresponding deficit in the preceding year amounted to Rs. 11,739,450. Accordingly, a deterioration amounting to Rs.2,418,726 of the financial result was observed. This deterioration was mainly due to an increase in personal emoluments by Rs. 5,226,566 and gratuity by Rs.5,773,976, compared to a decrease in development expenditure by Rs.8,982,463.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	Even though there was an amount of Rs. 1,886,005, which was retained from the contractor during the installation of the CCTV camera system at the head office and the construction of the building in the year 2021, action had not been taken to restore the CCTV camera system that became inactive in January 2022 by the end of the year under review.	A contractor has been selected to repair the CCTV system and agreements are to be signed.	The CCTV system should be repaired immediately and if the system is inactive during the warranty period, it should be repaired with the retained amount.
(b)	The State Ministry of Batik, Handloom and Local Apparel Products had allocated Rs. 3,000,000 to the Centre on 21 November 2020 for the design and production of 100 new saree designs, and it had been agreed to sell these sarees through Salusala. However, the project has now been suspended, and a sum of Rs. 1,072,748 of the allocated provisions was carried forward under current liabilities without being utilized from the year 2021 until the end of the year under review.	Since the expected target of the project has been achieved, the instructions have been requested from the Ministry how to deal with the balance of the provision received for the project.	If the work has been completed, the remaining amount should be settled promptly.

3.2 Operational Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	A sum of Rs. 2,312,228 of the funds received for the promotion of craftsmen under the United Nations Development Programme had been stated under current liabilities in the financial statements since 2015 without fulfilling the objectives.	Approval has been given to Board Paper No. NDC/2025/BM-4/BP/38 dated 28 June 2025 to use this money as a development task that can be used as an investment for the institution. Action will be taken accordingly	This money received from the United Nations Organization should be used for the expected task expeditiously.

(b)	<p>The former Chairman had filed a case personally against the relevant external party regarding an accident that occurred to a vehicle on 16 June 2023 and the legal expenses of Rs. 150,000 incurred in that regard were accounted as an expense of the Centre. Although the said vehicle had been involved in another accident on 01 October 2024, action had not been taken to restore it to its original condition even by the audit date of 15 July 2025.</p>	<p>The Board of Directors, which is vested with the powers for the management of this Centre in terms of the National Crafts Council and Allied Institutions Act, No. 35 of 1982, has reimbursed the relevant legal fees based on the decision given in the Board Paper No. NDC/2024/BM/03/BP21 dated 14 June 2024. Although the prices were first obtained from Toyota Company, it was informed that the company does not have the parts and therefore it must be imported and that it will take three months and until then the vehicle cannot be kept at Toyota Company.</p>	<p>If the expenses incurred by the company for the case personally filed by the Chairman were incurred, such expenses should be recovered from the Chairman immediately. The vehicle should be restored immediately.</p>
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3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation	Management Comment	Recommendations
<p>(a) A machine for crushing Reeds and fibres crushing worth Rs. 249,000, which was purchased on 02 February 2024, was still lying idle in the workshop of the Head Office by 20 June 2025, the date of audit.</p>	<p>Necessary actions are being taken to hand over the reeds and fibres crushing machine to the society in coordination with the Divisional Secretariat.</p>	<p>Action should be taken to hand over the machine to the necessary parties and remove it properly from the books.</p>
<p>(b) The Centre had constructed a wastewater treatment plant at the Walawatta Batik Training Centre belonging to the National Crafts Council at a cost of Rs. 737,687 during the year under review, and it remained idle without any use by 15 July 2025, the date of audit.</p>	<p>Since it is a Batik Training Centre operating under the National Crafts Council, it is hereby informed that the plant will be used depending on the implementation of the training programmes of that training centre and that the Centre does not have information on the training</p>	<p>A methodology should be developed to use the plant for an effective purpose.</p>

		programmes implemented by that institution.	
(c)	The Centre entered into an agreement with the Sri Lanka Institute of Nanotechnology on 28 February 2024 to complete the research project to prepare 05 types of powder and concentrated natural dyes based on herbal waste for dyeing batik fabrics in 06 months and although Rs. 2,328,804 had been incurred by 30 April 2025, the expected objectives of the project had not been achieved due to the work not being completed and handed over.	It is informed that there is no agreement entered into between this institution and the Institute of Nanotechnology.	Action should be taken to achieve the expected objectives of the project as per the agreement dated 28 February 2024.
(d)	93 items of finished goods worth Rs. 419,590 purchased for the Batik Fashion Show program in the year 2023 remained idle in the warehouse even by the year under review.	Answers have not been given.	Action should be taken to utilize the relevant finished goods for an effective purpose.
(e)	According to the Action Plan in 2024, a sum of Rs. 928,425 was spent on the program to create, publish and launch a manual for bamboo, of which Rs. 581,700 was spent on printing 500 manuals. However, the relevant books had remained idle in the store without being used.	Voluntary organizations, government institutions and social media are very interested in this field, which has been a special stimulus for the country's wood industry sector and the self-employment sector. Accordingly, this book, which was prepared by conducting an experimental study on bamboo crafts in Sri Lanka, has been a great support to the people entering the field. Necessary steps have been taken to send copies to Universities, Schools and Regional Public Libraries.	Government funds should be used sparingly for effective purposes. If these books were printed to be distributed to parties interested in this field, action should be taken to distribute those books to the relevant parties rather than keeping them in the store.
(f)	100 Sinhala and English motif books worth Rs. 819,976 were printed in 2023 without a clear purpose, and out of these, 53 books worth Rs. 487,587	The Motif book has been printed with the aim of properly socializing the basic elements of Sri	Government funds should be used sparingly for effective purposes.

were still lying idle in the premises of the Centre as at 31 May 2025.

Lankan Sinhala art decorations. Several printed copies were given to the guests and craftsmen at the book launching ceremony, and the remaining copies have been kept in the custody of the library and store of the institution for future use as needed. Those copies will be provided to the craftsmen and libraries as needed.

The requirement should be properly identified and the money should be spent accordingly and these books should be distributed promptly as needed.

3.4 Delays in Projects or Activities

Audit Observation	Management Comment	Recommendation
Even though a waste water treatment system was installed on 16 December 2021 at a cost of Rs. 2,991,720 with the aim of teaching batik production and providing common facilities to the craftsmen involved in the industry, that system could not be utilized as the capacity of the relevant tank, which was 3000 Litters had not been filled by 15 July 2025, the date of audit.	During the year 2025, batik training programs will be implemented based on the Action Plan and the requests received, and the wastewater treatment system will be implemented only when sufficient wastewater is collected to operate it.	The work should be implemented with a good understanding and proper planning, and a suitable methodology should be established to utilize this system.