

National Design Centre – 2015

The audit of financial statements of the National Design Centre for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 84(3) of the Affiliated National Crafts Councils Act, No.35 of 1982. My comments and observations which I consider should be published with the Annual Report of the Centre in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Centre's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the National Design Centre as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

Even though the balance of the Office Equipment Account amounted to Rs.11,411,858 according to the Ledger Account as at 31 December 2015, it had been shown as Rs.11,341,858 in the financial statements. Thus, a sum of Rs.70,000 had been understated.

2.2.2 Unexplained Differences

According to the financial statements of the Center, the value of 06 Assets Accounts totalled Rs.76,793,123 whereas it had been Rs.58,391,226 according to the Board of Survey Reports of the year 2015. Thus, a difference of Rs.18,401,897 existed.

2.2.3 Lack of Evidence for Audit

Registers of Fixed Assets pertaining to the value of 02 Assets Accounts totalling Rs.17,561,657 shown in the financial statements of the Center and the Government Gazette Notifications or the deeds of land relating to the lands where the Head Office and the Project Office, Naththarampotha were located had not been made available to Audit.

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

Non-compliances with the following laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules,
Regulations, etc.

Non-compliances

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- (a) National Crafts Council Act, No.35 of 1982
- A contract for the supply of arts and sculptures had been obtained from another institution and that contract had been awarded to a sub-contractor contrary to the objectives of the Centre according to the Act on the establishment of the Centre.
- (b) Establishments Code Paragraph 13, Section 13.3 of Chapter II
- An acting appointment should be made as a temporary measure only and until a substantive appointment is made and if the post continues to require the services of a full-time officer, the substantive appointment should be made without delay. Even though an officer in every respect fully qualified to perform the duties of that office should be appointed to act in a vacant post, the Assistant Accountant of the Centre had been appointed to act in the post of Director (Marketing/Information) without paying an acting allowance from the year 2009 up to the year under review.
- (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
- (i) Financial Regulation 371(2)
- Even though a sub-imprest should be settled immediately after the completion of the purpose for which it is granted, action had not been taken even by 31 October 2016 to settle the advances totalling Rs.15,600 granted by the Design Consultancy Fund on 09 September 2015. Further, the advances totalling Rs.371,105 granted in 33 instances had been settled after the delays ranging from 01 month to 04 months.
- (ii) Financial Regulation 760
- Even though a shortage of stores amounting to Rs.56,975 existed according to the Board of Survey Reports, required adjustments had not been made after looking into that shortage.

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| <p>(d) Government Procurement Guidelines of Procurement Agency Circular No.08 of 25 January 2006</p> <p>(i) Section 5.4.4(i)</p> <p>(ii) Section 8.9.1(a)</p> <p>(iii) Section 2.7.5</p> | <p>Even though a maximum advance of 20 per cent out of the contract value could be paid for the creation of a website for the National Design Center, a sum of Rs.79,420 equivalent to 50 per cent had been paid as an advance.</p> <p>Even though a formal agreement should be entered into in case of contracts exceeding the value of Rs.250,000 , action had not been taken accordingly. The Secretary of the Ministry had not taken action to appoint the Departmental Procurement Committee.</p> |
| <p>(e) Public Finance Circular No.01/2014 of 17 February 2014 Paragraph 4(a)</p> | <p>Updated particulars of Organization Structure, approved cadre and actual cadre of the Centre relating to the year under review had not been included in the Annual Action Plan.</p> |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Centre for the year under review had been a surplus of Rs.2,642,938 as against the deficit of Rs.162,853 for the preceding year, thus indicating an improvement of Rs.2,805,791 in the financial result. Even though other expenditure had increased by Rs.14,281,194 in the year under review as compared with the preceding year , the increase in other income by Rs.17,723,087 had been the main reason for the above improvement in the financial result.

An analysis of the financial results of the year under review and preceding years had revealed a financial deficit in the years 2011 , 2012 and 2014 and a surplus in the years 2013 and 2015. Nevertheless, in considering the employees remuneration, Government tax and depreciation on non-current assets, the contribution of the Design Centre amounting to Rs.28,032,782 for the year 2011 had gradually improved to Rs.56,415,422 in the year under review.

3.2 Analytical Financial Review

The current ratio of the Centre in the year 2014 stood at 2.38 and it had dropped to 1.83 in the year under review. The increase in liabilities from the UNDP Project by 186 per cent in the year under review as compared to the preceding year had been the reason for this situation.

4. Operating Review

4.1 Performance

The powers and functions of the National Crafts Council established in terms of Section 82 of the National Crafts Council and Allied Institutions Act, No.1982 of 35 are given below.

- Undertake designs for small industries
- Research in respect of materials used for the production of handicrafts and designing of such handicrafts
- Market development both in Sri Lanka and abroad for handicrafts
- Effecting the production of handicrafts more efficiently
- Advise and assist the Sri Lanka Handicrafts Board and craftsmen in respect of matters relating to the production of handicrafts in the development and production of handicrafts
- Issue the certificates as prescribed in respect of the quality and standard of materials
- Maintain an information bank
- To impose and collect charges on services rendered and enter into agreements with similar institutions

The following observations are made.

- (a) Popularizing new designs among the public and the marketing of new designs through the National Showroom had been included in the activities of the Action Plan of the Centre for the year 2015. Further, the designs exhibited in the showrooms, the number of visitors and the sales income of the showroom had been shown as the performance indicators thereof. Nevertheless, action had not been taken to achieve none of these targets during the year under review.
- (b) Action had not been taken to carry out the activities that is, issuance of certificates prescribed in respect of the quality and standard of materials and maintenance of an information bank on market trends.
- (c) Two instances where the targets under each objective not achieved during the year were observed in the comparison of Action Plan and the Performance Report as at 31 December 2015 of the National Design Centre.
 - (i) Even though plans had been made to develop 08 traditional handicrafts villages concurrently with the 100 Day Programme of the Government during the year under review, only 04 programmes had been implemented by the end of 100 days.
 - (ii) Even though designs of which the sales value amounting to Rs.7,000,000 had been targeted to be introduced to the market during the year under review, only the new designs with a sales value of Rs.2,800,000 had been introduced to the market by the end of the year.

- (d) Even though the designing being one of the key functions of the Centre had increased annually from the year 2011 up to the year 2014, number of designs had dropped by 4.88 per cent or 43 during the year under review as compared with the year 2014.

4.2 Management Activities

In terms of Section 4.2.2 of the Circular No. PED 12 of 02 June 2003 of the Department of Public Enterprises, the performance of Government institutions should be monitored and reviewed by the Board of Directors from time to time. Nevertheless, only one meeting of the Board of Directors had been held by the Centre during the year 2015.

4.3 Staff Administration

The approved cadre of the Centre had been 109 and the actual cadre stood at 86, thus 23 vacancies existed in the staff. Delays in the efficient execution of functions relating to the segregation of work and internal control existed due to the said vacancies in the staff. Further, employees had been recruited for three substantive posts of the Centre on contract basis during the year 2015 without recruiting permanent employees.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the Draft Annual Report and financial statements should be presented to the Auditor General within 60 days after the close of the financial year in terms of Section 6.5.1 of the Circular No. PED 12 of 02 June 2003 of the Department of Public Enterprises, the financial statements of the National Design Centre for the year 2015 had been presented to the Auditor General only on 29 August 2016 after a delay of 05 months.

5.2 Internal Audit

Only a female officer had been appointed on covering up basis to the post of Internal Auditor of the Centre while no action had been taken to recruit a permanent officer for the said post.

5.3 Audit Committee

Even though Audit Committee meetings should be held at least once per three months in terms of Section 7.4.1 of the Circular No. PED 12 of 02 June 2003 of the Department of Public Enterprises, only one Audit Committee meeting had been held by the National Design Centre in the year 2015.

5.4 Budgetary Control

A comparison of the budgeted expenditure and the actual expenditure revealed variances ranging from 25 per cent to 100 per cent in respect of 16 Objects, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.5 Tabling of Annual Reports

In terms of Section 6.5.3 of the Circular No. PED 12 of 02 June 2003 of the Department of Public Enterprises, the audit reports should be tabled in Parliament in three languages along with the final audited accounts within 150 days after the close of the financial year. Nevertheless, tabling of the Annual Report of the year 2012 had been delayed up to 09 November 2015, while action had not been taken even by 30 September 2016 to table the Annual Reports of the years 2013 and 2014.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Centre from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls -----	Observations -----
(a) Financial Control	Non-settlement of balances receivable and payable. Existence of unsettled balances in the preparation of Bank Reconciliations.
(b) Fixed Assets Control	Non-maintenance of Register of Fixed Assets in an updated manner. Delays in the appointment and conduct of Board of Surveys.
(c) Stores Control	Non-inventorying of the goods in stores and balance stock of exhibition sales
(d) Internal Audit	Lack of internal control systems, non-issuance of internal circulars, failure to take action to strengthen the internal audit.
(e) Staff Management	Engaging employees on contract basis for the substantive posts over long periods and the failure to fill the vacancies in substantive posts.

