

National Crafts Council - 2011

1. Financial Statements

1:1 Qualified Opinion

In my of opinion, except for the effects of the matters described in paragraph 1.2 of the this report, the financial statements give a true and fair view of the financial position of the National Crafts Council as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Comments on financial Statements

1.2.1 Funds received as government grants in the year under review and the preceding year had not been brought to accounts in terms of Sri Lanka Accounting Standard 24. Sums of Rs.12,500,000 and Rs.7,002,000 had been received in the year under review and the preceding year respectively .

1.2.2 Accounting Deficiencies

The following observations are made

- (a) Agreements had been signed for the construction of a hostel for the craftsmen in the BattaramullashilpaGammanaya and a sum of Rs.1,120,395 had been paid during the year under review. Although this Construction Work had not been completed during the year under review,the amount had been debited to the buildings account instead of being debited to the work in progress account.Further depreciation of Rs.56,020 had been made thereon for the year under review.
- (b) No provision for audit fees for the year under review had been made by the Council .

1.2.3 Non –reconciliation of Accounts

The following observations are made.

- (a) An unreconciled difference of Rs.2,403,159 was observed between the balances shown in the account and the register of fixed assets in respect of 5 fixed asset items.
- (b) An unreconciled difference of Rs.2,459,310 was observed between the total of 4 items in the balance sheet presented and the total as per the notes attached thereto.
- (c) An unreconciled balance totalling Rs.1,553,771 was observed between the financial statements as at 31 December 2011 according to the accounts presented and the trial balance in respect of 3 items.

1.2.4 Lack of Evidence for Audit

Six fixed assets items totalling Rs.3,098,070 could not be satisfactorily verified in audit due to non- rendition of schedules to confirm the balances, board of survey reports etc.

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

Instances of non-compliance with Laws, Rules, Regulations etc. observed in audit are given below.

Reference to Laws, Rules, Regulations etc.	Non-compliance
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(a) Treasury Circular No.DMA/2009/02 dated 01 September 2009 and Treasury Circular No.842 dated 10 December 1971	A register of fixed assets had not been maintained.

- (b) Treasury Circular No.1A1/2002/02 dated 28 November 2002 A separate register for computers, computer accessories and software was not maintained.
- (c) Treasury Circular No.810 of 26 July 1971 Even though the 13 officers of the council had obtained 127 ½ days no pay leave in the years 2009, 2010 and 2011, full salary had been paid irrespective of the no pay leave in terms of the circular.
- (d) Financial Regulations
- (i) F.R.371(5) Although an advance received by an officer should be settled not later than that 31 of December of the financial year, advances totalling Rs.1,733,719 received by officers during the year 2011 and prior years had not been settled even by the end of the year under review. Out of these unsettled advances, Rs.774,019 had been obtained in the years 1993 – 2010.
- (ii) F.R.396(c) Twenty Sevenunpresentedchequestotalling Rs.96,870 lapsed for more than 06 months had not been credited to revenue.

1.2.6 Identified Losses

Surcharges totalling Rs.21,315 had been imposed in the year under review as demurrage charges due to failure in paying contributions to the Employees Trust Fund on due dates.

2. Financial Review

2:1 Financial Results

According to the financial statements presented the operation of Council for the year ended 31 December 2011 had resulted in a deficit of Rs.2,266,819 after being adjusted the recurrent grants of Rs.93,399,600 received from the Treasury as compared with the deficit of Rs.6,376,395 for the preceding year after being adjusted the government grants of Rs.80,716,000 received from the Treasury for that year, thus showing a favorable improvement in the financial results by Rs.4,109,576.

2:2 Review of Financial Results

The total income of the Council amounted to Rs.94,661,749 whereas the total operating expenditure amounted to Rs.96,833,088. out of which a sum of Rs.67,166,629 or 69 per cent had been spent for personnel emoluments. Only a sum of Rs.14,230,651 or 15 per cent had been spent for a key function of Crafts Development and Welfare of the Crafts Council.

3. Operating Review

3.1 Performance

(a) Physical and Financial Progress as per the Annual Action Plan

Even though an annual action plan had been prepared for the year 2011, an adequate attention had not been paid to achieve the objectives of the council.

Physical progress of the following divisions is given below.

(i) Physical Progress

Activity	Expected Targets	Actual	Percentage notAchieved
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			%
Basic Technical Training Workshops } National level Training Workshops } Handicrafts and Training Centers Training Programmes }	700 150 788	547 64 413	22 57 48

(ii) Financial Progress

Expenditure had been incurred on the following items in excess of the expected expenditure.

Activity	Provision	Actual Expenditure	Percentage of Expenditure Incurred in Excess of Provision
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	Rs. Mn.	Rs. Mn.	%
Basic Technical Training Workshops } National level Training Workshops } Handicrafts Exchange Programmes } Foreign Exhibitions Trade Fair Media Programmes	0.8 0.5 0.5 0.7 0.15	1.12 0.62 0.87 2.34 0.52	40 24 74 235 247

(b) Cultivation of raw material and distribution of bulrush plants

The following observations are made.

- (i) A sum of Rs.62,500 had been paid for the distribution of 50,000 bulrush plants in Gampaha and Kalutara Districts but no follow up action whatsoever had been taken on this distribution and cultivation.
- (ii) Although the upliftment of handicraftsman's products by making availability of raw material in plenty for handicrafts is a key objective of the council, it was observed that adequate steps had not been taken to cultivate raw materials.

3.2 Management inefficiencies

The following observations are made.

- (a) The balance money amounting to Rs.1,317,977 from the construction of Sigiriya Information Centre Project had been retained in the general deposit account for a period of 4 years without being utilized for any activity.
- (b) The Craftsmen Training Division of the Sri Lanka Handicraft Board had been handled over to the National Crafts Council on 01 May 2009 but the human resources and fixed assets belonged to it had not been formally acquired even up to 30 June 2012.

3.3 Control over Construction Contracts

- (a) Dambulla Pradeshiya Sabha had submitted an estimate for Rs.665,355 for the construction of the boundary fence in the Sigiriya handicrafts village and an agreement had been signed on 05 May 2011 therefore.

The following matters were observed in this regard.

- (i) Twenty per cent of the estimated value, equivalent to Rs.133,071 had been paid as the mobilization advance before signing the agreement.
- (ii) According to the agreement work should have been completed by 31 May 2012, it had not been completed even by 30 September 2012. The period had also not been extended.

- (b) A sum of Rs.246,219 had been paid for the purchase of raw materials to build an access bridge to the Battaramulla handicrafts manufacturing and marketing village. The following observations are made in that regard.
- (i) A primary design had not been prepared for building the bridge.
 - (ii) Although an over payment of Rs.28,000 had been made to the Railway Department in getting raw materials this had not been recovered up to the end of the year under review.
 - (iii) Although 8 months had elapsed after supplying raw materials, action had not been taken to commence the construction works.
- (c) The estimated value of the contract for the construction of new building in the Craftsmen Training Division, amounted to Rs.1,248,000.

The following matters were observed in this regard.

- (i) Even though the Chairman had instructed to prepare the relevant plans and specification required for the construction of prepose building, action had not been taken by the contractor as per such instruction.
- (ii) The shape of the roof had changed due to non-making the walls of the building as per specifications. As a result water was seapaged into the building.
- (iii) Even though it was informed the Chairman verbally that this work would be completed as at 31 January 2011, there were lots of defects in this building even by the end of the year under review and as such it was difficult to operate office work. The Chairman informed that further action would be taken after being examined the site by an officer of the ICTAD.

3.4 Personnel Administration

Particulars of approved and actual cadre of the Council for the year 2011 are given below.

	Approved	Actual	Vacancies	Excess
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Executives	18	03	15	-
Non-executives	02	06	-	04
Others	<u>244</u>	<u>182</u>	<u>63</u>	<u>01</u>
Total	<u>264</u>	<u>191</u>	<u>78</u>	<u>05</u>

It was observed that existence of vacancies in 15 executive positions, including the post of Accountant had badly affected to proper operation of the activities of the Council.

4. Accountability and Good Governance

4.1 Corporate Plan

Although a Corporate Plan had been prepared, by the Council to cover the period from 2011 to 2015. It had not been updated.

4.2 Physical and Financial Progress in terms of Annual Action Plan

Although an Action Plan had been prepared by the Council for the year 2011, sufficient attention had not been drawn to achieve its objectives. The progress of 3 programmes in the action plan had been at a very weak level.

4.3 Budgetary Control

Variations between the budgeted figures and actual figures had been ranged from 18 to 195 per cent and as such the Budget had not been made use of as an effective instrument of management control.

5. Systems and Controls

Weakness in Systems and Controls observed during the course of audit were brought to the notice of the attention of the Chairman of the Council from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Advances
- (c) Internal Control
- (d) Staff Loans
- (e) Technical Training