

1. Financial Statements

1:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Sri Lanka Handicrafts Board had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:2 of this report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Sri Lanka Handicrafts Board as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

1:2 Comments on Financial Statements

1:2:1 Sri Lanka Best Accounting Practices

Non – compliance with the following best accounting practices were observed during the course of audit.

- (a) An adequate percentage of depreciation for buildings had not been adopted and it had been disclosed as 1 per cent of the value of the assets under the straight line method.
- (b) The cost of motor vehicles amounted to Rs.4,955,347 and the value had become zero by 31 December 2009. The motor vehicles had not been revalued and brought to account in the accounts for the year under review.
- (c) Prior year adjustments had been made regularly to the financial results disclosed in the financial statements for each year. Even though prior year adjustments ranging from Rs.1.5 million to Rs.13 million had been made from the year 2001 to the year 2009, action had not been taken to settle that .

1:2:2 Accounting Deficiencies

The following accounting deficiencies were observed.

(a) Omission in the accounts

- (i) According to the Board of Survey Reports, the closing balance of the stock of stationery as at the end of the year amounted to Rs.273,616. That had been omitted in the final accounts.
- (ii) The assets of the Engineering Division as at the end of the year under review amounting to Rs.3,047,000 had not been included in the final accounts.
- (iii) The value of 29 computers received from the SIRRUP Fund had not been computed and brought to account.
- (iv) The arrears of audit fees amounting to Rs.2,923,077 had not been disclosed in the accounts. Action had not been taken even up to the end of the year under review to settle the amount.
- (v) Even though a sum of Rs.6,000,000 had been invested in the Benevolent Welfare Fund. The income from investment of Rs.747,000 had not been disclosed in the accounts.

1:2:3 Accounts Receivable and Payable

The following matters were observed .

- (a) The trade debtors balance of the Board for the year under review amounted to Rs.4,889,001. According to the age analysis, the debtors older than 05 years amounted to Rs.3,596,424. Action had not been taken for the recovery of these debts.
- (b) The trade creditors balance for the year under review amounted to Rs.18,158,776 and out of that Rs.7,065,433 had been older than 01 year.

1:2:4 Non – compliance with Laws, Rules, Regulations and Management Decisions

Instances of non – compliance with laws, rules, regulations, etc. observed during the course of audit are given below.

Reference	Particulars
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(a) Financial Regulations of the Government of Sri Lanka (FR)	

(i) Financial Regulation 133(2)	The Internal Audit Division of Sri Lanka Handicrafts Board had not issued any Internal Audit Queries during the year under review.
(ii) Financial Regulation 371(5)	Even though advances obtained by officers should be settled by 31 December of the same year, advances amounting to Rs.99,235 obtained in the years 2009 and 2010 had not been settled even by the end of the year under review.
(iii) Financial Regulation 446	(i) The entries of receipts and payments in the cash book should be maintained in the chronological order and the daily totals of the cash book should be signed by a supervisory or a staff officer. Nevertheless, it had not been so done.
	(ii) The collections of the Carpentry Training Institute of the Board at Katubedda from January to December 2010 amounting to Rs.560,925 had not been recorded in the cash book.

(b) Circulars

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| <p>(i) Public Enterprises
Department Circular No.
PE1/000/6 (Allow) Voll
Temporary dated 02 June
1998</p> | <p>Even though none of the officers of the Board other than the Chairman is entitled to obtain reimbursement of official or private entertainment bills, such reimbursements amounting to Rs.38,723 and Rs.10,472 had been made to the Managing Director and the Executive Director (Administration) of the Board respectively.</p> |
| <p>(ii) Treasury Circular No. 842
of 19 December 1978 and
the Management Audit
Circular No. DMA/2009(2)
of 01 September 2009</p> | <p>The balance of the fixed assets of the year under review amounted to Rs.169,400,402 and a Register of Fixed Assets had not been maintained in that connection.</p> |

2. Financial and Operating Review2:1 Financial Review2:1:1 Financial Results

According to the financial statements presented, the working of the Board for the year ended 31 December 2010 had resulted in a surplus of Rs.6,034,558 as against the deficit of Rs.6,947,465 for the preceding year thus indicating an improvement of Rs.12,982,023 in the financial result. The net income of Rs.15,566,727 earned by the Engineering Division had been the main reason for the improvement of the financial result.

2:2 Operating Review

2:2:1 Performance

- (a) According to the accepted standard, the current ratio (current assets: current liabilities) should be 2:1. Nevertheless the current ratio in the year under review and the preceding year had been 0.73:1 and 0.75:1 respectively.
- (b) The targeted sales of the Fort Laksala and the other Branches in the year 2010 had recorded decreases ranging from 24 per cent to 85 per cent.
- (c) The total sales income in the year 2009 amounted to Rs.131,320,505 while the sales income for the year under review amounted to Rs.224,292,147. Thus, the total sales income of the year under review, as compared with the preceding year, had improved by Rs.92,971,642 or 71 per cent.
- (d) The export income of the year under review, as compared with the preceding year, had improved by Rs.773,401 or 118 per cent.

2:2:2 Management Inefficiencies

The following observations are made.

- (a) Even though a consultant had been recruited at a monthly allowances of Rs.30,000 he had not been assigned with duties. As such the performance could not be assessed.
- (b) Three officers of the Board had participated in the Canton Trade Fair held in the People's Republic of China from 13 to 22 October 2010 and the Board had spent a sum of Rs.543,105 in that connection. No goods had been taken for exhibition at the Fair while no trade promotions had also been done.
- (c) The sale of the Laksala Showroom at Bambalapitiya had been determined at the highest bid of Rs. 4,200,000 and an advance of Rs.2,100,000 had been obtained from an external party in the year 2009. Action had not been taken to transfer the building and recover the balance sum of Rs.2,100,000 from the person concerned.

- (d) The handover of assets and liabilities of the Crafts Training Division transferred to the National Craft Council had not been formally finalized.

2:2:3 Underutilized Assets

The following observations are made.

- (a) Fourteen categories of implements comprising 296 equipment had been kept in the stores over a period of about 15 years without being used for any purpose.
- (b) Eight carpentry machines in usable condition, taken off from use due to new machinery purchased had been kept in the stores over a period of about 05 years. Action had not been taken either for the use of the machines or for their disposal.
- (c) The building with a floor area of about 600 square feet situated in the premises of the Galle Laksala had not been used after the year 2009.

2:2:4 Identified Losses

The following observations are made.

- (a) There was a shortage of goods valued at Rs.119,580 in the Batik Division of the Laksala Head Office.
- (b) A surcharge of Rs.1,497,331 had to be paid as the Board had failed to remit the contributions to the Employees' Provident Fund on the due dates.
- (c) A surcharge of Rs.655,640 had been paid in the year under review due to the failure to pay the Rates payable annually to the Local Authorities on the due dates. That amount had not been brought to account as accrued expenses.

2:2:5 Budgetary Control

Variances between the budgeted amounts and the actual amounts ranged between 23 per cent to 349 per cent. As such it was observed that the budget had not been made use of as an effective instrument of control.

3. Systems and Controls

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

- (a) Assets Control
- (b) Grant and Settlement of Advances
- (c) Purchase of Products, Payment and Marketing
- (d) Sales / Returns / Credit Sales / Export Sales
- (e) Financial Management and Internal Control
- (f) Compliance with relevant Legal Provisions
- (g) Maintenance of Books and Files
- (h) Accounting