

## **National Craft Council - 2013**

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The audit of financial statements of the National Craft Council for the year ended 31 December 2013 comprising the balance sheet as at 31 December 2013 and the statement of financial performance , statement of changes in equity and the 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 National Craft Council Affiliated Act No.35 of 1982. My comments and observations which I consider should be published with the Annual Report of the Council in terms of Section 14(2)(c) of the Finance Act, appear in this report.

### **1:2 Management’s Responsibility for Financial Statements**

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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**

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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 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 judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the Council’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 Council’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**  
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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

**2. Financial Statements**  
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**2:1 Qualified Opinion**  
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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 Craft Council as at 31 December 2013 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.**  
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**2.2.1 Accounting Policy**  
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Even though it had been shown as non-current assets, without considering the nature of that asset depreciation policy had not been determined on the library books valued at Rs.718,228.

**2.2.2 Accounting Deficiencies**  
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The following accounting deficiencies were observed.

- (a) Even though overall non-current assets of the Council had been purchased under the Government grants and depreciated annually, action had not been taken to write off the relevant depreciation as amortization. Accordingly, the value of the Government grants as at the end of the year under review was Rs.88,290,000, whereas the net value of the non-current assets represented thereon amounted to Rs.60,884,509.
- (b) Provisions had not been made for audit fees for the year under review.
- (c) The Crafts Welfare Fund established for the welfare of the craftsmen had taken action to carry out welfare activities of the craftsmen and provide a service for the purchase and sale of items manufactured by the craftsmen. However, accounts had not been separately maintained so as to show the financial results of this Fund and the closing stock amounting to Rs.3,491,102 of the stalls of Colombo Fort and Molagoda and the amount receivable for the items taken over by the Laksala Institute valued at Rs.5,660,058 had not been disclosed by the accounts.

- (d) In terms of a Cabinet decision, although the properties valued at Rs. 46 million owned by the Crafts Training Centers situated under the Sri Lanka Handi Crafts Board island wide had been vested in the National Craft Council, the value thereof had not been shown specifically and separately and as such those assets had not been included in the accounts of the Council.

### 2.2.3 Unexplained Differences

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When comparing the balances relating to 3 assets accounts with the schedules presented along with the financial statements, a difference amounting to Rs.467,097 was observed.

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

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Non-compliances observed during the course of audit are given below.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
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(i) Financial Regulation 371(2)(c)	The balance of the unsettled advances as at 31 December 2013 amounted to Rs.876,052 and out of that balances totalling Rs.651,637 had been older than 05 years.
(ii) Financial Regulation 396(d)	Action in terms of the Financial Regulations had not been taken in respect of 31 cheques totalling Rs.147,056 and 30 cheques totaling Rs.29,793 lapsed for more than a period of 06 months relating to two bank accounts.
(iii) Financial Regulation 565	Action in terms of the Financial Regulations had not been taken to settle deposits amounting to Rs.1,453,270 lapsed for more than 03 years and security deposits amounting to Rs.125,490 relating to the period from the year 1995 to 2009.

(b) Treasury Circular

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| (i) Treasury Circular No.842 of<br>19 December 1978             | A Register of Fixed Assets had not been maintained on fixed assets aggregating to Rs.29,421,880 . |
| (ii) Treasury Circular<br>No.1A1/2002/02 of 28<br>November 2002 | A Register had not been maintained for Computers, Computer Accessories and Software.              |

**3. Financial Review**

**3.1 Financial Results**

According to the financial statements presented, the operations of the Council for the year under review had resulted in a net deficit of Rs.30,791,896 as compared with the corresponding deficit of Rs.50,961,490 for the preceding year, thus indicating a decrease in the deterioration by Rs.20,169,594 in the financial results of the year under review as compared with the preceding year. The increase in the total income of the Council by 72 per cent as compared with the preceding year had mainly attributed to the above decrease in the deterioration.

**4. Operating Review**

**4:1 Performance**

The following observations are made.

Physical and Financial Progress as per the Annual Action Plan.

Even though an Annual Action Plan had been prepared for the year 2013, attention had not been adequately focused on the achievement of objectives of certain divisions. Physical progress observed during the cause of audit is given below.

(a) Physical Progress

Activity	Expected target	Target achieved	Percentage of non-achievement
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Handicrafts sales villages	02	-	100
Handicrafts welfare programmes	25	18	28

Plants for raw material cultivation	106,950	10,000	91
Instruments sets for the trainees	500	138	72
Basic Technical Training Programmes	40	32	20
Intermediate Technical Training Programmes	10	08	20
Foreign training programmes for Handicraftsmen	02	-	100
Renovation of training centres	15	10	33

The achievement of the expected target of the physical performance relating to eight divisions ranged from 100 per cent to 20 per cent.

(b) Financial Progress

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The following observations are made.

- (i) Expenditure exceeding the estimated amount from 126 per cent to 172 per cent had been incurred relating to 04 Objects.
- (ii) A decrease in the registration of craftsmen , Basic Technical Training Programmes and organized local sales fairs was observed. It was further observed that, there had been a decrease in the income by 20 per cent of the training centres owing to the drop of craftsmen obtaining production facilities of the training centres.

**4.2 Management Inefficiencies.**

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The following observations are made.

- (a) Training activities of the crafts training centers and their supervision had been at a weak level.
- (b) The arrears of the rental receivable from the craftsmen who were occupying the rented stalls of the Sigiriya Crafts Village as at 09 December 2013 amounted to Rs.123,000.

#### **4.3 Transactions of contentious nature.**

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The following observations are made.

- (a) The “Ape Gama”, which is controlled by the Sri Lanka Handy Crafts Board, had been established on a land vested with the Crafts Council upon the 99 years lease agreement No.13/1/225/10/8/551 dated 29 October 1990 of the Urban Development Authority. It was observed that there was a contentious nature with regard to the ownership of this land.
- (b) A Crafts Museum comprising the works of arts that achieved winnings from the Crafts exhibitions conducted within the “Ape Gama” by the Crafts Council had been established within the premises of “Ape Gama” and a sum of Rs.60,000 had been incurred for the maintenance activities during the year under review. However, action had not been taken for the reimbursement of that amount from the Handicrafts Board.

#### **4.4 Idle and Underutilized Assets**

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- (a) Even though the Sigiriya Crafts Village established by the Ministry of Rural Economic Development on a land 03 acres in extent, comprises 04 buildings and 40 sales stalls at present, only one building and 09 trade stalls are being utilized. The building awarded to Laksala, conference hall, cafeteria, lavatories remained idle without being utilized and matters such as absences of water, decline of the income of the craftsmen due to lack of tourists visits had mainly affected for the smooth functioning of the village.
- (b) It was observed that the instruments and equipment of the Lacquer Carving Training Center at Pahala Hapuvinda had remained idled and underutilized.

#### **4.5 Identified Losses**

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The following observations are made.

- (a) A sum of Rs.6,649 had been paid in the year under review as a surcharge due to the failure to remit the contributions to the Employees’ Trust Fund as at the specified dates.
- (b) Even though a sum of Rs.1,431,316 had been spent in the year 2012 for regularizing and decoration of the showroom of the Crafts Council and a sum of Rs.1,152,902 had been spent for the construction of timber bridge that had been demolished subsequently for another development work even before opening, action had not been taken to write off these assets from the books as per the Financial Regulation 504.

#### **4.6 Personnel Administration**

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Since there were two vacancies at the intermediate level and 29 vacancies at the secondary level, it was problematic to carry out the functions of the Council efficiently and an officer in the Primary level was in excess.

**5. Systems and Controls**

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

- (a) Control of Fixed Assets
- (b) Control of Advances
- (c) Complying with the relevant legal provisions
- (d) Budgetary Control
- (e) Maintenance of Crafts Training Centres