

National Crafts Council - 2014

The audit of financial statements of the National Crafts Council for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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 Crafts 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

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 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

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 Crafts Council as at 31 December 2014 and its financial performance for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements.

2.2.1 Accounting Policies

Even though an asset should be depreciated on a systematic basis over its useful life since it is available for use, the depreciation policy on library books valued at Rs.718,228 had not been determined.

2.2.2 Sri Lanka Public Sector Accounting Standard No.07

Even though assets should be revalued once in every three or five years and shown the fair value, it had not been so done.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Even though non-current assets purchased under the Government grants had been depreciated annually, action had not been taken to account for the relevant amortization. The balance of Government grants as at the end of the year under review was Rs.95,047,571 whereas the net value of non-current assets represented thereon amounted to Rs.61,575,322.
- (b) Provisions had not been made for audit fees for the year under review while the outstanding audit fees payable according to the financial statements amounted to Rs. 1,593,605.
- (c) A sum of Rs.4,171,985 which should be shown under the work in progress had been brought to account under the lands and buildings.
- (d) As the internal money transfer entries had not been accurately brought to account, the Crafts Fund Account had been understated by a sum of Rs.1,100,000 whereas the payables had been overstated by the same amount.
- (e) A sum of Rs.4,161,485 received for the construction of buildings from the line Ministry during the year under review had been brought to account as other income instead of being accounted as capital grants.

2.2.4 Unexplained Differences

A difference amounting to Rs.2,022,607 was observed in comparing the assets registers pertaining to 07 asset accounts of the statement of financial performance of the year under review with the schedules.

2.2.5 Lack of Evidence for Audit

Confirmations of balances and Board of Survey Reports pertaining to liabilities totalling Rs.404,469 and materials and show room stocks valued at Rs.11,388,580 were not made available to audit.

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

The 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.	

(i) Financial Regulation 371(c)	Action had not been taken to settle the advances as at the end of the year under review totalling Rs.1,107,311 out of which a sum of Rs.232,675 consisted of balances older than 02 years.
(ii) Financial Regulation 387	Even though obtaining overdrafts from a bank account is prohibited, an overdraft balance existed in a bank account of the Council over the entire year.
(iii) Financial Regulation 396(d)	Action in terms of the Financial Regulations had not been taken in respect of 13 cheques totalling Rs.47,923 issued but not presented for payment for over a period of 06 months relating to three bank accounts.
(b) Treasury Circular No.842 of 19 December 1978	A Register of Fixed Assets had not been maintained.
(c) Treasury Circular No.1A1/2002/02 of 28 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 for the year under review, the operations of the Council had resulted in a deficit of Rs.4,035,820 as compared with the corresponding deficit of Rs.30,791,896 for the preceding year, thus indicating an improvement of Rs.26,756,076 in the financial results as compared with the preceding year. The increase in the total income of the Council by 46 per cent as compared with the preceding year had mainly attributed to this improvement.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

- (a) Action had not been taken to recover the arrears of rental amounting to Rs.143,000 recoverable from the rented stalls of the Sigiriya Crafts Village as at 09 December 2014.
- (b) Credit balances amounting to Rs.2,627,489 and debit balances amounting to Rs.152,252 shown in the bank reconciliation statement since the year 2011 had not been identified and brought to account.
- (c) A Crafts Museum comprising the great masterpieces that achieved winnings from the Crafts Exhibitions conducted annually within the “Ape Gama” by the National Crafts Council had been established within the premises of “Ape Gama” and a sum of Rs.659,072 had been spent on its maintenance activities during the year under review. Nevertheless, action had not been taken for the reimbursement of that amount from the Handicrafts Board.

4.2 Transactions of Contentious Nature

The buildings situated in the land vested in the National Crafts Council on 99 year lease basis by the Urban Development Authority, had been demolished in accordance with the decision of the Construction Committee for the Commonwealth Heads of Government Meeting held in the year 2013. Furthermore, the Laksala Showroom constructed adjacent to the National Crafts Council had also been demolished and the “Ape Gama” had been reconstructed with a 60 square feet belonging to the Council. Even though there was a contentious nature with regard to the ownership of this land as the “Ape Gama” is maintained by the Sri Lanka Handicrafts Board, action had not been taken to settle it.

4.3 Idle and Underutilized Assets

Even though the Sigiriya Crafts Village established by the Ministry of Rural Economic Development on a land of 03 acres in extent, comprises 04 buildings and 40 sales stalls at present, only one building and 09 trade stalls are being used. The building given to Laksala,

conference hall, cafeteria, lavatories remained idle without being used and matters such as non-availability of water for use, decline of the income of the craftsmen due to lack of tourists visits had mainly affected the smooth functioning of the village.

4.4 Identified Losses

The building constructed at a cost of Rs.1,431,316 in the year 2012 for regularizing and interior decoration of the showroom of the National Crafts Council and the timber bridge constructed at a cost of Rs. 1,152,902 to enter the Crafts Village in the premises of Crafts Council had been demolished subsequently for another development work even before opening. As such, a loss amounting to Rs.2,584,218 had sustained.

4.5 Personnel Administration

The approved cadre of the National Crafts Council as at 31 December 2014 had been 262 while the actual cadre stood at 254. Fifteen vacancies existed in the approved cadre whereas excess cadre existed in the primary unskilled level had been 18.

5. Accountability and Good Governance

5.1 Annual Action Plan

Even though an Annual Action Plan for the year 2014 had been prepared, due attention had not been paid to achieve the objectives of certain sections.

The management had failed to achieve the objective of popularizing the Handicrafts Village Programme and Handicrafts Museum being the main programmes included in the Annual Action Plan for the year 2014. Further, despite the plans to provide 750 sets of equipment to the trainees during the year under review, only 200 out of that had been provided while the objectives of 03 sub programmes out of 28 active sub programmes had not been achieved.

5.2 Unresolved Audit Paragraphs

According to a Cabinet decision taken in the year 2009, although the Crafts Training Centers functioned island wide under the Sri Lanka Handicrafts Board, its properties and employees had been vested in the National Craft Council, the property had not been legally vested. According to the accounts of the Sri Lanka Handicrafts Board, assets valued at Rs. 46 million owned by the Centers had not been brought to account as the assets of the National Craft Council as per the Cabinet decision. It included three motor vehicles vested in the Sri Lanka Handicrafts Board. Even though a large sum of money had been spent on Board of Survey of inventory goods at Centers, action had not been taken to get transferred the ownership of those Centers to the Council.

6. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Chairman 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) Accounting
- (d) Administration of Crafts Training Centres