

National Crafts Council – 2017

The audit of financial statements of the National Crafts Council for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 and Allied Institutions 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. A detailed report in terms of Section 13 (7) (a) of the Finance Act was issued on 11 June 2018.

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 judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk 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 2017 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 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard 1

Because of setting off the receipts aggregating Rs. 95,000 which was given by different outside Institutes for various training programs in the year under review with the expenditure of Rs. 95,000 incurred for that, the income and expenditure had not been disclosed in accounts though assets and liabilities, income and expenditure should not be set off unless required or allowed to set off.

(b) Sri Lanka Public Sector Accounting Standard 7

- (i) Though depreciation should be commenced on an asset once it is made available for use, fixed assets value aggregating Rs. 5,880,485 being in use and purchased during the year under review by the Crafts Council had not been depreciated for the year under review.
- (ii) Though showcases and other items at a cost of Rs. 578,905 had been completely depreciated due to non-reviewing of effective life time of non-current asset annually, those were still being utilized. Accordingly actions had not been taken to revise accounting estimation errors in terms of Sri Lanka Public Sector Accounting Standard 3.

2.2.2 Accounting Policies

Although the non-current assets valued at Rs. 129,087,446 purchased from the Government grants had been depreciated annually, an accounting policy had not been identified for accounting of capital grants.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Amount aggregating Rs. 13,500,000 had been given to Craft Council from the Ministry of Traditional Industries and Small Enterprise Development in the years 2007, 2008 and 2010 to purchase silver for silversmith. This amount which was a long term liability, had been recorded as current liabilities in statement of financial position.
- (b) A shortage in capital grant account and an excess in cumulative fund account had been shown by a sum of Rs. 713,405 due to the correction journal entry made during the year under review in accounting of capital type of receipts and payments in the year 2016 as recurrent type of income and expenditure.
- (c) The less provision aggregating Rs. 1,277,328 had been made for the audit fees as at the end of the year under review when providing audit fees for the years 2015, 2016 and 2017.
- (d) The less aggregating Rs. 330,224 had been accounted in interest income with relating to two fixed deposits as at 31 December of the year under review.

2.2.4 Unexplained Differences

The following observations are made.

- (a) According to the ledger accounts, though the balance of the miscellaneous advance account as at 31 December of the year under review amounted to Rs.15,136, that balance had been Rs. 352,651 as per the schedule of advances, thus indicating an unexplained difference of Rs. 337,515.
- (b) An unexplained difference of Rs. 51,046,580 was observed in the comparison of the balances relating to 08 accounts of fixed assets shown in the financial statements as at 31 December of the year under review with the register of fixed assets.
- (c) According to the ledger of Craft Council as at 31 December of the year under review, a difference of Rs. 337,515 remained between advance account balance and the balance of advance schedule, and it was shown in suspense accounts by deducting from the total of the schedule.

2.2.5 Lack of Evidence for Audit

Evidences shown in front of each following accounts object had not been presented to audit.

Accounts object -----	Value -----	Evidences not presented -----
	Rs.	
(a) Dormant bank current Accounts	172,926	Bank reconciliation statements, cash books of two closed accounts
(b) Payments	386,920	Supporting evidences including invoices with relating to 09 vouchers

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Out of the total balance of trade and other receivables amounting to Rs.2,597,538 as at 31 December of the year under review, the total of loan balances more than 03 years amounted to Rs. 2,479,538 and actions had not been taken to recover those loan balances.
- (b) Out of the total balance of trade and other payables amounting to Rs.2,020,090 as at 31 December of the year under review, steps had not been taken even during the year under review to settle the total balances of Rs. 158,685 from 02 to 03 years and the total balances of Rs. 1,861,405 over 03 years.

2.4 Non-compliances with Laws, Rules, Regulations and Management Decisions

The non-compliances with laws, rules, regulations and management decisions observed during the course of audit are given below.

Reference to Laws, Rules, and Non-compliance Regulations, etc.

- (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

Financial Regulation 272 (3)

Though vouchers should be presented for every payment, value of 06 payment vouchers aggregating Rs. 1,003,428 had not been presented to audit.

- (b) Ministry of Finance Circular No. 03/2015 dated 14 July 2015

Though settlement of advances should not be delayed as at 31 December of that financial year, sub imprest totaling Rs. 258,651 which was given in 08 instances from the years 2000 to 2016 had not been settled even as at the end of the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year under review had been a deficit of Rs. 5,336,897 as compared with the corresponding deficit of Rs. 2,122,880 for the preceding year, thus indicating a decline of Rs. 3,214,017 in the financial result of the year under review as compared with the preceding year. The decrease in the total revenue of the Council by a sum of Rs. 693,369, increasing in total expenditure by a sum of Rs. 2,520,649 as compared with the year 2016 had mainly attributed to this decline.

When analyzing of the financial results in the year under review and the preceding 04 years revealed that there had been continuous financial deficits from the year 2013 up to the year 2017. However, in considering employees' remuneration, depreciation on non-current assets; the contribution of the Council had been Rs. 59,668,591 in the year 2013, and having grown continuously, it had become Rs. 134,641,678 as at the year 2016 and it was decreased up to Rs.127,185,816 in the year under review.

3.2 Analytical Financial Results

The following observations are made.

- (a) When examine in current assets ratios of the Craft Council in preceding 03 years, it had been increased up to 2.24 as at the year 2016 from 1.85 in the year 2015, and that ratio was 2.39 in the year under review. Decreasing in current liabilities more than the percentage decrease in current assets in the year under review had been the reasons for the improvement of this ratio. Accounts payable amount of Rs. 8,204,379 remained in the year 2016 had reduced up to a sum of Rs. 2,597,538 as at the end of the year under review, decrease in current liabilities as at the end of the year under review by Rs.2,125,190 had mainly attributed to this.
- (b) The quick asset ratio of 1.36 in the year 2016 had marginally been improved up to 1.44 as at the year 2017. Decline in closing stock included in current asset by Rs. 600,837 in the year under review as compared with the previous year had mainly attributed to the improvement of this ratio.

4. Operating Review

4.1 Performance and Review

The following observations are made.

- (a) In comparison of the number of various training programs conducted by the Institute for craftsmen and the number of persons trained during the period of five preceding years, the number of training programs and the number of persons trained had gradually increased in the years of 2013 and 2014. Nevertheless, these figures had decreased in the year 2015. As compared with the year 2016, the number of training programs had decreased by 13 or 12 per cent and the number of persons trained, had decreased by 235 or 16 per cent in the year 2017.
- (b) According to the action plan, though it was planned to establish handicraft production and marketing village in Jaffna under the financial allocation of Rs.23,000,000 from the Office of Indian High Commissioner, allocations had not been received for the construction activities of handicraft village in Jaffna due to non-completing the construction of marketing village at Kawanthissapura in Hambantota for which the allocation is given by the same Office of Indian High Commissioner.
- (c) As per the action plan 2017, it was targeted to establish 25 District Craft Councils, to complete all constructions in phase II of handicraft production and marketing village at Kawanthissapura in Hambantota during the year under review. However, establishment of District Craft Councils had not been completed and construction works of handicraft production and marketing village had also not been completed during the year.
- (d) According to the action plan, though it was planned to conduct 06 local trade fairs and exhibitions during the year under review, achieved physical progress from the action plan had remained in 50 per cent due to conducting 03 trade exhibitions and fairs as per the performance report and actual performance.
- (e) Though it was targeted to establish and rehabilitate 50 Associations under establishment and rehabilitate Craft Associations during the year 2017, the physical progress had remained in 56 per cent due to achieving only the activities of 28 Associations during the year.
- (f) According to the performance reports, though it was shown that the physical progress of planting trees as 4000 plants, planting targets had not been shown in the action plan. Therefore the progress achieve could not be identified.

4.2 Management Activities

The following observations are made.

- (a) Though sewing machines, potter's wheel, electrical items and equipment had been procured for amount aggregating Rs. 8,373,920 in the month of December of the year under review to distribute 06 villages under Village Development Program, actions had not been taken to distribute those material and equipment for craftsmen even up to the date of audit on April 2018.
- (b) According to the Cabinet Decision No. අම/08/2322/349/015 dated 08 January 2009, 86 craftsmen training centers located Island wide under the purview of the Sri Lanka Handicrafts Board, and the properties belonging thereto, had been handed over to the Council. However, actions had not been taken to legally take over and account the lands and buildings of 85 centers out of those training centers.
- (c) The excess of 19 souvenirs valued aggregating Rs. 49,500 had been purchased as at the end of the year under review due to non-identifying the requirement of souvenirs when purchasing souvenirs for Shilpa Abhimani - 2017 and International Handicraft Festival – 2017.
- (d) A sum aggregating Rs. 16,118,325 had been received during the year under review from the Line Ministry under the Enterprise Village Development Program, and due to spending a sum aggregating Rs.16,766,788, the expenditure had been made more than receipts by Rs. 648,463.
- (e) The land situated in Rohina Mawatha with the extend of 02 roods 1.58 perches had been vested to Craft Council by the Indenture of Lease 140 of 16 October 1990 in which the Head Office of Craft Council had been constructed. Though the controversial issues had been occurred with relating to the boundaries of this land, it had not been cleared even during the year under review.

4.3 Transactions of Contentious Nature

When closing down of two bank current accounts with a net balance of Rs. 116,804 during the year under review which were dormant from several years had been written off against the previous years profit as shortage, and the balance in the cash account had been deducted as expenditure.

4.4 Idle and Underutilized Assets

The following observations are made.

- (a) Three buildings and 11 trade stalls of the Sigiriya Crafts Village being administered by the Crafts Council, had remained idle over a period of more than three years without being made use of.

- (b) An amount of 97.92 kilograms of silver valued aggregating Rs. 13,218,660 purchased from the provisions of the Ministry during 2007-2010 to be given to silversmiths, had remained idle for a period of more than 07 years.
- (c) As 05 vehicles released by the Ministry of Rural Economic Affairs to the Crafts Council on 03 June 2015, had remained unsuitable for running since 31 December 2017, the vehicles had been parked insecurely at the premises of the Head Office and remained idle.

4.5 Staff Administration

The following observations are made.

- (a) The approved cadre of the Crafts Council had been 262 while the actual cadre stood at 230. Five posts in the senior level, 38 in the secondary level, and 01 post in the tertiary level had remained vacant. The approved cadre of the primary level had been 21, but the actual cadre had been 27, thus an excess of 06 employees had existed.

It was observed a delay in accelerating the implementation of activity in the Institution due to non-taking actions to fill the above vacancies in the cadre even as at the end of the year under review. It was observed that the actions have been taken to recruit the staff for the vacancies as at the year 2018.

- (b) Even though the Officer who served in the post of Accounting and Procurement had resigned from service in February 2014, actions had not been taken to recruit a permanent employee for that post.

5. Sustainable Development

5.1 Achieving of Sustainable Development Goals

Actions should be taken by every Government Institution to comply with sustainable development “the agenda” for the year 2030 of the United Nations and it was not aware the manner in which should be implemented with regarding the activities coming under the scope of Crafts Council. Following matters were observed in this regard.

- (a) National Crafts Council had selected “Poverty Alleviation” objective to achieve sustainable development target in the year 2017. Accordingly, though the targets and indexes had been identified to achieve those objectives, the financial provisions, human resources and physical resources had not been identified in the activity plan of the year under review to achieve sustainable development objectives and targets.

- (b) The continues work load performed with regarding the objectives and goals in terms of Craft Council Establishment Act had also been included in the activity plan of the year under review, and same work load had been reported to audit as the based targets and indexes for achieving of sustainable development objectives. Therefore special attention had not been taken for the achievement of sustainable development objectives.

6 Accountability and Good Governance

6.1 Budgetary Control

Variances ranging from 47.7 per cent to 80.4 per cent were observed between the provisions and the actuals in respect of 07 objects in the year under review and furthermore, expenses had exceeded provisions ranging from 32 per cent to 67.6 per cent relating to 03 objects in development works. Hence, it was observed that the budget had not been made use of as an effective instrument of management control.

6.2 Unresolved Audit Paragraphs

The wooden bridge constructed in the year 2012 by spending a sum of Rs. 1,274,649 to provide access to the crafts village of the premises of the Crafts Council had been demolished and removed for another development purpose even before it was opened. Actions had not been taken to write off this asset from the books of accounts.

7. Systems and Controls

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

Areas of Systems and Controls	Observations
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(a) Financial Control	Non-recovery of receivable balances and inclusion of unsettled balances in the Bank Reconciliations.
(b) Fixed Assets Control	Non-maintaining of Registers of Assets properly, non-acquiring of assets in crafts training centers and delays in conducting of Boards of Surveys.
(c) Stores Control	Failure in updating of stores materials and stocks of exhibits.
(d) Control of Debtors and Creditors	Non-recovery of outstanding loan balances, and failure to take action to settle the payable balances.

