National Design Centre – 2017

The audit of financial statements of the National Design Centre 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 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 the Section 13(1) of the Finance Act, No.38 of 1971 and Section 84(3) of the Affiliated National Crafts Council Act, No.35 of 1982. My comments and observations which I consider should be published with the Annual Report of the Centre 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 to the Chairman of the Centre on 09 July 2018.

1.2 Management's Responsibility for the 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Centre'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 Centre'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 Basic for qualified opinion

My opinion is qualified based on the matter in paragraph 2.2 of this Audit 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 Design Centre 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 Standard - 06

Even though, a half of the old administrative building located at the Head Office premises shown in the financial statements as at 31 December of the year under review at a cost of Rs.5,387,674 had been demolished and removed on 23 February 2018 and the construction of a new building had been commenced, the necessary disclosures had not been made in this regard in the financial statements in terms paragraph 29 (e) of the standard.

2.2.2 Accounting Policies

The accounting policy in accounting government grants and the provision for gratuities adopted by the Centre had not been disclosed in the financial statements as notes in terms of paragraph 132 of the Sri Lanka Public Sector Accounting Standard 01.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) As a result of computing gratuities of 3 employees in the Centre, less than 01 year of their service, the gratuity and the provision of gratuity relating to the year under review had been understated by Rs.59,652.

(b) A sum of Rs.262,260 receivable for the implementation of development works belonging to the Line Ministry in the year under review had not been brought to accounts.

(c) Preliminary expenses totalling Rs.969,260 paid for the provision of Consultancy Services and to obtain assessment reports for the construction of new building of the Centre during the year under review had been capitalized under buildings account instead of being accounted as capital works in progress.

(d) Rates totalling Rs.80,000 paid for the year 2018 had been brought to accounts as an expenditure of the year under review.

2.2.4 Unexplained Differences

According to the financial statements of the Centre, the total value of 7 fixed asset accounts amounted to Rs.70,963,010 whereas the total value of those assets according to the Board of Survey reports amounted to Rs.56,526,211 and as such an unexplained difference of Rs.14,436,799 had existed.

2.2.5 Lack of Evidence for Audit

Even though a total sum of Rs.29,480,402 had been brought to accounts by using 13 journal entries during the year under review, relevant journal vouchers were not made available to audit.

2.2.6 Accounts receivable and payable

The following observations are made.

(a) Of the total trade and other receivable balances amounting to Rs.7,996,367 as at 31 December of the year under review, debtor balances remained the periods from 01 to 03 years and over 3 years amounted to Rs.1,054,140 and Rs.744,806 respectively. Sufficient action had not been taken to recover these debts.

(b) Of the total trade and other payable balances amounting to Rs.968,664 as at the end of the year under review, the value of balances remained unsettled for periods 1 – 3 years and over 3 years amounted to Rs.408,657 and Rs.310,007 respectively. Action had not been taken to settle these balances.

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

The following non-compliances with Laws, Rules, Regulations and Management Decisions were observed.

Reference to Laws, Rules Regulations etc.		Non-compliance
(a)	**Financial Regulations of the Democratic Socialist Republic of Sri Lanka**	
	Financial Regulation 138 (6)	Without being attached invoices relevant to the payments and the originals of sufficient documentary evidence to the voucher, payments totalling Rs.121,723 had been made using 3 vouchers.
(b)	Public Finance Circular No.3/2015 dated 14 July 2015	Advances can be granted up to a maximum amount of Rs.100,000 at a time and if exceeded that limit, the prior approval of the Treasury should be obtained. Without obtaining such prior approval, advances totalling Rs.3,362,045 had been given in 5 instances during the year under review.

2.5 Transaction Without Adequate Authority

In terms of Public Finance Circular No.PE/PE/5 of 11 January 2000, before payment of allowances, incentives and other financial benefits, the approval of the Treasury should be obtained. Without obtaining such approval, a total sum of Rs.1,170,000 had been paid to 78 employees as incentives. This incentive had been paid without following a proper evaluation system and the money received for the development activities of the technicians through the non-governmental organizations had been used therefor.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Centre for the year under review had been a surplus of Rs.7,671,395 as compared with the surplus of Rs.5,208,630 for the preceding year, thus indicating an improvement of Rs.2,462,765 in the financial result of the year under review as compared with the preceding year. Increase of recurrent grants by Rs.3,270,032 received from the Treasury in the year under review as compared with the preceding year and increase of recurrent grants by Rs.7,994,423 received from the Treasury for development activities and decrease of other expenses by Rs.3,352,769 had mainly attributed to the improvement of financial result.

In analyzing the financial results of the year under review and the 4 preceding years, a deficit in the financial result had indicated in the year 2014, whereas surpluses in the financial results had indicated in other years. However, in re-adjusting employees remunerations, government taxes and depreciation on non-current assets to the financial results, the contribution of the Centre had been Rs.40,772,386 in the year 2013 and it had increased to Rs.66,784,173 in the year under review, being improved gradually.

4. Operating Review

4.1 Performance

4.1.1 Operations and Review

Under the Affiliated National Crafts Councils Act No.35 of 1982, the National Design Centre had been established and the following observations are made in the achievement of functions and activities stated in Section 82 of the Act.

(a) Even though, the creation of designs which is a main function of the Centre had improved gradually from 2013 to 2016, the number of design creations had decreased by 317 or 34 per cent in the year under review as compared that of the year 2016. Inclusion of only the most suitable creations being introduced to the technicians in the progress and it was unable to get the service of 2 creators during the year under review had been the reasons for this decrease.

(b) Even though, the number of training programmes conducted in the years 2013, 2014 by the Centre had increased, it had continuously decreased from the year 2015 to the year under review. The number of training programmes conducted in the year under review had decreased by 12 or 19.3 per cent as compared with that of the year 2016.

(c) Even though, it was planned to develop knowledge, skills and attitudes of 82 employees of the Centre during the year under review by incurring an expenditure of Rs.1,500,000, only 50 employees had been trained by spending a sum of Rs.900,000 and as such the physical performance was only 61 per cent.

(d) A provision of Rs.13,250,000 had been made in the year under review for the supply of new technological machines and equipment to Technicians and the actual expenditure incurred thereon had been only Rs.3,003,000. Accordingly, the financial progress in the achievement of this task had been 22.6 per cent. As the physical targets to be achieved those objectives were not made available for audit, the physical progress could not be examined.

(e) According to the Act of incorporation of the Centre, one of the functions to be performed had been to prepare a web site including the information about the Centre. Even though, a provision of Rs.50,000 had been made in the year under review for this purpose, it had not been carried out.

(f) Even though, the total provision of Rs.500,000 for carrying out researches on substitutes for scarce raw materials and efficient production processes in the year under review, only certain experiments had been carried out during the year by spending a sum of Rs.39,000 and as such targets had not been reached.

4.2 Management Activities

The following observations are made.

(a) Equipment and tools totalling Rs.1,728,925 purchased during the period from October to December 2017 for awarding to the Technicians under Entrepreneur Village Development Programme and uplifting Livelihood of Technicians Programme had not been distributed among them even up to the date of this report.

(b) It was planned to spend a sum of Rs.80,000,000 for the construction of a new office building for the Head Office of the Centre after being demolished and removed the old office building with the approval of the Cabinet of Ministers in the year under review. However, only a payment of Rs.969,260 had been paid to the Central Engineering and Consultancy Bureau by the end of the year under review for the approval of designs and consultancy services and action had not been taken to get even the legal ownership of the land in which the new building proposed to be constructed.

(c) Unsettled advances totalling Rs.335,666 accounted under the design consultancy account as advances brought forward for a long period up to the end of the year under review had not been identified and settled.

4.3 Under utilization of Funds

As the non-existence of a pre-plan, out of the funds received for 2 foreign aid projects namely ‘oxfam’ and ‘UNDP’ during the year under review, funds ranging from Rs.4,661,732 to Rs.16,263,617 had retained underutilized in a bank current account during the entire year.

4.4 Personnel Administration

The approved and the actual cadre of the Centre had been 109 and 87 respectively and as such there was a shortage of 22 officers in the overall cadre. Due to dearth of staff, delays had existed in the performance of functions such as internal control, segregation of duties, internal check and internal audit.

5. Sustainable Development

5.1 Reaching Sustainable Development Goals

According to the Circular No.NP/SG/SDG/17 dated 14 August 2017 issued by the Secretary to the Ministry of National Policies and Economic Affairs and the United Nations year 2030 on Sustainable Development, every public entity should act in accordance with that ‘agenda’. Accordingly, the Centre had built up indicators based on the objective of “Poverty Alleviation” in order to reaching Sustainable Development Goals and targets and the action was being taken to uplift the livelihood of technicians, being prepared basic plans.

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

Even though, the draft annual report and the financial statements should be submitted to the Auditor General within 30 days after the closure of the financial year in terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements relating to the year 2017 had been presented to audit on 03 April 2018.

6.2 Internal Audit

A permanent officer for the Internal Audit Division had been recruited in November 2017. However, as sufficient staff had not been attached to that division, internal audit functions, as planned by the Internal Audit Division could not be carried out during the year under review.

6.3 Budgetary Control

The provision received from the Line Ministry for development programmes amounted to Rs.7,976,511 but an expenditure of Rs.4,707,602 had been incurred in excess of that provision. Even though, capital provision of Rs.10,000 had been approved for plant and equipment in the year, a sum of Rs.486,850 had been spent in excess of that provision.

6.4 Tabling the annual reports

In terms of Section 6.5.3 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, trilingual annual reports, along with the audited accounts should be tabled in Parliament within 150 days after the closure of the financial year. Nevertheless, annual reports from 2014 to 2016 had not been tabled in Parliament even by June 2018.

7. Systems and Controls

Weaknesses in System and Control observed in audit were brought to the attention of the Chairman of the Centre from time to time. Special attention is needed in respect of the following areas of Systems and Controls.

	Area of Systems and Control	Observations
(a)	Financial Control	Non-settlement of receivable and payable balances, non-settlement of balances shown in the bank reconciliation statements for a long time having being identified.
(b)	Fixed Assets Control	Non-updating register of fixed assets, non-appointment of Board of Surveys, delays in conducting surveys.
(c)	Internal Audit	Non-introduction of internal control systems, non-functioning of internal audits efficiently.
(d)	Personnel Administration	Deployment of contract employees for permanent posts since a long period, delays in filling vacancies in the permanent posts.
(e)	Stores Control	Stores items and goods purchased not properly posted to stock books and stock books not properly updated.