

## **National Crafts Council – 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the National Crafts Council for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 in conjunction with provisions of the National Audit Act No.19 of 2018 and Finance Act No.38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Council as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Council or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Council's financial reporting process.

As per Section 16(1) of the National Audit Act No.19 of 2018, the Council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Institute.

## 1.4 Scope of Audit

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following:

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Council and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Council has complied with applicable written law, or other general or special directions issued by the governing body of the Institute.
- Whether the Council has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Financial Statements**

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### **1.5.1 Internal Control over the preparation of financial statements**

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Entities are required to “devise and maintain” a system of internal accounting controls, sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

### **1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards**

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<b>Non-compliance with reference to relevant standard</b>	<b>Management’s comment</b>	<b>Recommendation</b>
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<p><b>(a) Sri Lanka Public Sector Accounting Standard 01</b></p> <p>-----</p> <p>Even though in terms of Section 106 of the standard, when items of revenue and expense are material, their nature and amount need to be disclosed separately, a total sum of Rs.25,144,662 accounted for as revenue in the financial statements and a sum of Rs.25,182,061 accounted for as expenses had not been disclosed of their nature and amount, separately.</p>	<p>This programme has been implemented, under the villages development program on the Ministry provision. Even though the total value is material, this is one program. Accordingly, it was accounted under one expenditure object.</p>	<p>According to the standard, when expenditure items are material their nature and amount need to be separate disclosed.</p>

**(b) Sri Lanka Public Sector Accounting Standard – 07**

Even though, information in respect of acquisition, demolition and removal of property, plant and equipment was disclosed in the financial statements as at 31 December 2018 under accounting policy No.5, valuation of stock, it does not cover with the stock standard and as such it had not been disclosed under property, plant and equipment standard.

Action will be taken to disclose by the final accounts of the year 2019.

It should have been disclosed under property, plant and equipment standard.

(c) Even though, a value of stock amounting to Rs.21,297,645 was shown in the statement of financial position as at 31 December 2018, sufficient disclosures had not been made in the financial statements in respect of the accounting policies adopted in measuring inventories, including the cost formula used in terms of paragraph 47(a) of the Sri Lanka Public Sector Accounting Standard 09.

Action will be taken to disclose in the year 2019.

A sufficient disclosure needs to be made in respect of the accounting policy adopted.

**(d) Sri Lanka Public Sector Accounting Standard – 19**

The employee benefit schemes in terms of sub-section 5 of the above standard are implemented, and it had not been disclosed in the financial statements as at 31 December 2018 in terms of sections 140 and 141 of the standard.

Action will be taken to disclose in the year 2019.

Sufficient disclosures need to be made in the financial statements in respect of employee benefits schemes.

**1.5.3 Accounting Policies**

**Audit observation**

Even though, non-current assets valued at Rs.138,787,751 purchased from government capital grants had been annually depreciated, an accounting policy to account the government grants had not been recognised.

**Management's comment**

After submitting to the Audit and Management Committee scheduled to be held on 06 October 2019, a policy will be recognized and shown in the accounts in future.

**Recommendation**

An accounting policy in accounting capital grants needs to be recognised and disclosed.

#### 1.5.4 Accounting Deficiencies

<b>Audit observation</b>	<b>Management's comment</b>	<b>Recommendation</b>
(a) Balances of the money given to 112 Training Centres of the National Crafts Council to meet expenditure and the income earned from sales of those centres totalling Rs.2,941,212 had not been brought accounts by the end of the year under review. That money had retained as balances of savings accounts of those sales centres.	Letters had been sent to the relevant banks. After receipt of those confirmation letters, that money is transferred to an account of the Head Office. Being opened bank accounts at provincial level, transactions are of Training centres carried out through them.	Correction as per reply is appropriate.
(b) Action had not been taken to identify assess and account the fixed assets exist in training centres belong to the National Crafts Council as at 31 December 2018.	The crafts council only uses the assets exist in training centres.	Assets exist at training centres need to be identified, assessed and accounted.
(c) The rent expense totalling Rs.240,000 paid in the year under review on behalf of the year 2017 had been brought to account as an expense of the year under review.	Action will be taken to account on accrual basis in future.	Financial Statements of the Council need to be prepared on accrual basis.
(d) Capital grants receivable from the Ministry for the year under review and payables from capital grants amounting to Rs.5,828,720 had been posted to the statement of financial performance as receipts and payments of recurrent grants.	Action has been taken to capitalize this amount of Rs.5,828,720.	Recurrent and capital expenditure need to be accounted being correctly identified.
(e) The value of Rs.5,266,069 received from the Line Ministry for the purchase of brass materials for the year under review had been posted as sale of raw materials and as such the sales income had been overstated by that amount.	Action is taken to rectify from the accounts of 2019.	Capital grants need to be accounted having being correctly identified.

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| (f) | Under provision of audit fees of Rs.1,085,853 relating to the years 2016 and 2017 had been adjusted as an expense of the year under review and as such the expenditure of the year under review, had been overstated by that amount.   | Observation is correct.   | Expenditure of the year under review needs to be identified and accounted correctly.                      |
| (g) | Goods totalling Rs.478,748 had been purchased by the National Crafts Council during the year under review. through 4 craftsmen to be given to the Sri Lanka Wild life Institute as special orders. Only a sum of Rs.165,435 had been received from the wildlife institute for those goods and only a sum totalling Rs.147,500 had been paid to the craftsmen for the goods purchased. Accordingly, payables totalling Rs.318,015 to the craftsmen as payable expenses and a sum of Rs.313,313 due from the buyer to the crafts council as receivables had not been brought to account and prepared the financial statements. | The wildlife institute was informed to pay the balance money without delay. | A transaction needs to be accounted in full. This money needs to be recovered and given to the craftsmen. |

### 1.5.5 Unreconciled Control Accounts or records

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Item	Value as per financial statements	Value as per subsidiary records	Difference	Management's comment	Recommendation
	Rs.	Rs.	Rs.		
(a) Advance Account	(18,984)	318,513	337,515	Will be rectified.	Action as per reply is appropriate.
(b) Fixed Assets	78,069,250	41,339,759	36,729,491	Action is being taken to take the correct values to the books after being assessed the fixed assets.	Action needs to be taken to account the fixed assets after being assessed.

### 1.5.6 Lack of evidence for audit

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<b>Item</b>	<b>Amount</b>	<b>Audit evidence not made available</b>	<b>Management's comment</b>	<b>Recommendation</b>
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	Rs.			
Trade and other receivable balances	8,917,758	Confirmation letters	Letters have been sent to debtors to get the relevant balances confirmed.	Letters of confirmation need to be submitted to audit.

### 1.6 Accounts Receivable and Payable

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#### 1.6.1 Accounts Receivable

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<b>Audit observation</b>	<b>Management's comment</b>	<b>Recommendation</b>
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A total sum of Rs.8,917,758 had been shown as receivable balances as at 31 December the year under review, out of which the balances totalling Rs.2,394,938 had remained unsettled balances for more than 3 years. Action had not been taken to recover these outstanding balances.	The balance of Rs.2,347,522, older than 3 years is receivable from Laksala and the Laksala was made aware of these dues.	Action needs to be taken to recover long outstanding debtor balances.

### 1.7 Related Parties and non-disclosure of related party transactions

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<b>Audit observation</b>	<b>Management's comment</b>	<b>Recommendation</b>
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Even though, the Chairperson of the National Crafts Council involves in financial and operational decisions as a member of the Board of Directors of the National Design Centre, it had not been disclosed in the financial statements.	Action will be taken to disclose with the financial statements of the year 2019.	Action as per reply is appropriate.

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

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	<b>Reference to Laws, Rules etc.</b>	<b>Non-compliance</b>	<b>Management's Comment</b>	<b>Recommendation</b>
(a)	Circular No.03/2015 dated 14 July 2015 of the Ministry of Finance.	Even though, the settlement of advances need not be delayed more than the 31 <sup>st</sup> day of December of the financial year in which they were issued, sub-impressts totalling Rs.258,651 issued in 8 instances from 2000 to 2016, had not been settled even by the end of the year under review.	Action is taken to omit it by submitting to the Board of Directors.	Action needs to be taken to settle these old advances.
(b)	Circular No.PED/2/2015 of 01 June 2015 of the Ministry of Finance.	Over payments totalling Rs.98,276 had been made to 8 officers of the Council in excess of the circular limit during the first half of the year under review as Telephone expenses.	Expedite the recovery of overpaid amounts.	Action needs to be taken to recover the overpaid amount and incur telephone expenses within the limits specified in the circular.
(c)	Public Enterprises Circular No.PED/17of 28 October 2003.	Without obtaining the prior approval as per the circular, a sum of Rs.2,128,799 had been paid for proceeding abroad by the officers of the Crafts Council in 4 occasions during the year under review.	Action had been taken to get the approval and to produce relevant reports by now.	Action needs to be taken in accordance with the circular and the prior approval for foreign tours needs to be taken.



## 2. Financial Review

### 2.1 Financial Results

The operation of the Council for the year under review had resulted in a deficit of Rs.7,068,565 as compared with the deficit of Rs.5,336,897 for the preceding year. Accordingly, a deterioration of Rs.1,731,668 in the financial result was observed. Despite, the total income increased by Rs.27,046,881, as against the increase of expenditure by Rs.28,778,549 had mainly attributed to this deterioration.

## 3. Operating Review

### 3.1 Management Inefficiencies

Audit observation	Management's comment	Recommendation
(a) Ten types of material and equipment including hand machines, textiles wearing machines, sewing machines electrical irons, roofing sheets totalling Rs.1,272,333 purchased during the year under review to be distributed among the beneficiaries of the clay production villages at Ampara, Uhana had not been distributed among beneficiaries even up to 20 May 2019.	Action will be taken to distribute these materials and equipment's among the beneficiaries immediately after the development work of the common amnesties centre of the village is completed.	Action needs to be taken to hand over the materials and equipment to craftsmen, that purchased to be distributed among them.
(b) As the management of the National Crafts Council had not taken action in compliance of the conditions stated in the Letter No.4/10/36563 dated 28 November 2013 of the Commissioner General of Lands, a formal lease agreement had not been entered even as at 25 May 2019 into for the land in which construction works are carried out in the handicrafts manufacturing and marketing village at Kawanthissapura, Hambanthota. The National Crafts Council had carried out various construction works by incurring a total sum of Rs.8,338,797 as at 31 December 2018. In addition, an annual rental at Rs.240,000 per year had been paid to the Divisional Secretariat.	A request had been made to exempt the outright payment of Rs.720,000 for the acquisition of this land and that request had been referred to the Commissioner General of Lands. No instructions were received therefore and the Divisional Secretary has informed that once that payment is made the lease agreement can be signed. Accordingly, discussions in the regard is going on with the Commissioner of Lands.	As per the instruction of the Commissioner General of Lands, action needs to be taken to reach a lease agreement with the Divisional Secretary.

(c)	Without being identified the deposits totalling Rs.55,598, relating to state bank accounts of the Crafts Council bank reconciliations had been prepared without being settled it.	Action is being taken to identify and settle it.	Having being verified as per the Audit and Management Committee instructions, action needs to be taken to identify and settle these transactions.
(d)	A total sum of Rs.47,927 relating to one bank current account of the Crafts Council remained in the bank reconciliation statements without being identified and settled since 2012.	Action is being taken to further identify these unidentified debit values, according to the instructions of the Audit and Management Committee.	Need to be settled after being identified according to the audit committee instructions.
(e)	The Council had got various printing works done by Dinali Graphics by paying a total sum of Rs.339,125, using 9 vouchers during the year under review. Files and records systematically and appropriately maintained by the Council in respect of this procurement process were not made available to audit by the Management.	The preliminary inquiry in this regard is initiated and getting printing works done by this institute had been temporarily suspended.	Procurements need to be done in accordance with procurement guidelines and the records thereon need to be sufficiently maintained. On the basis of preliminary inquiry decisions, after being verified the payments, future action needs to be taken.

### 3.2 Operating Inefficiencies

----- <b>Audit observation</b> -----	----- <b>Management's comment</b> -----	----- <b>Recommendation</b> -----
(a) Under the Teacher craftsmen Training Programme during the year under review it was planned to provide equipment to 750 craftsmen at an estimated cost of Rs.900,000, according to the Action Plan, but equipment had been provided only to 244 craftsmen by incurring a sum of Rs.464,000. Accordingly, the financial and physical progress of achievement of this objective were 52 per cent and 33 per cent respectively.	As a part of equipment given to the previous years Teacher craftsmen has been utilized during the year under review as well. As such new equipment was provided to only essential classes.	Being identified sufficient equipment requirements for training programmes, it needs to be included in the plans.

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| <p>(b) Even though, it was planned to supply plant and machinery, equipment, tools and raw-materials to 300 trainees who were trained from the Training centres during the year under review, at an estimated cost of Rs.1,000,000, only a sum of Rs.521,000 had been actually spent and equipment and raw materials were supplied only to 104 beneficiaries. Accordingly, the financial and physical progress thereof stood at 52 per cent and 35 per cent respectively.</p> | <p>Supply of equipment is done only after finding and establishing whether craftsmen are actually in the field. Therefore, equipment had been given only to 104 craftsmen.</p> | <p>In the preparation of Action Plan, requirement of equipment needs to be included in the plans after being correctly identified.</p> |
| <p>(c) According to the action plan of the year under review it was expected to achieve a sales value of Rs.10,000,000 by holding Local market exhibitions and a marketing target of Rs. 4,000,000 by foreign market promotion and training programmes, their physical progress could not be examined as the progress achieved there from was not included in the performance report.</p>   | <p>Action will be taken to include the expected sales income by foreign and Local market promotion programmes.</p>   | <p>Action in terms of the reply is appropriate.</p>  |

### 3.3 Procurement Management

Audit observation	Management's comment	Recommendation
<p>(a) The contract valued at Rs.2,782,773 for the construction of vehicle Yard at Kawanthissapura, Hambantota Village had been awarded to the Road Development Authority, contrary to the provisions of procurement guidelines No.8 of 25 January 2006, without calling for quotations and only on the decision of the Board of Directors. In addition, in terms of the section 5.4.6 without deducting retention money the entire estimated amount had been released to the Road Development Authority. The Authority had sub-contracted it to the "Ratna Construction" to get done.</p>	<p>As it is a government entity, action had been taken to get the contract done by that entity.</p>	<p>Procurements need to be performed in accordance with procurements guidelines.</p>

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| (b) | A sum of Rs.2,666,508 had been paid to the Road Development Authority for landscape gardening of the above village, contrary to the Procurement Guidelines and only on the basis of the decision of the Board of Directors. The RDA had got it done by sub-contracting it to the “Ratna Construction”.  | Action will be taken to call for quotations in future.     | Selection of contractors and awarding contracts need to be done in accordance with procurement guidelines. |
| (c) | In getting goods or services, action needs to be taken to enter into a formal agreement in terms of guideline 8.9.3 of the Procurement Guidelines. Nevertheless, in the procurement of goods and services totalling Rs.3,333,042 under the entrepreneur development programme and the handicraft village at Kawanthissapura, Hambantota, written agreements had not been entered into with relevant contractors and also action had not been taken to get a performance bonds in terms of guideline 5.4.8 of the government procurement guidelines. | Action will be taken to obtain performance bond in future. | Procurements need to be performed in compliance with the government procurement guidelines.                |

#### **4. Accountability and Good Governance**

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##### **4.1 Annual Action Plan**

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<b>Audit observation</b>	<b>Management’s comment</b>	<b>Recommendation</b>
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According to the Action Plan, it was planned to establish 25 new handicrafts District crafts councils, establishment and update of 50 craftsmen societies during the year under review. However, only 06 district crafts councils and 15 societies have been established and as such their physical progress had indicated 24 per cent and 30 per cent respectively.	Steps have been taken to establish District Crafts Councils in a manner that covers all 25 districts during the 1 <sup>st</sup> quarter of the year 2019.	Action needs to be taken to reach targets included in the action plan.

## 4.2 Internal Audit

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### Audit observation

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Of the 22 audit queries issued by the internal audit division of the crafts council during the year under review, action had not been taken to reply 15 audit queries. Accordingly, the functions of the internal audit division had not been effectively and efficiently had not been used by the management for the control of the Council.

### Management's comment

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Reminders had been referred to the relevant divisional heads to reply audit queries.

### Recommendation

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Action needs to be taken to obtain the replies for the internal audit queries and attention for those issues be drawn and do necessary rectification.