

## **National Design Centre - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the National Design Centre for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 read in conjunction with provisions of the National Audit Act No. 19 of 2018 and the Financial Act No. 38 of 1971 . My comments and observations which I consider should be report 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 Centre as at 31 December 2020 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 Centre'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 Centre or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Centre 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.

#### **1.4 Audit Scope**

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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 skepticism 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.
- Obtained 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 internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Concluded 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 Centre'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 statements or, if such disclosures are inadequate, to modify my opinion. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluated the 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 Centre and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Centre has complied with applicable written law, or other general or special directions issued by the governing body of the Centre ;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

#### **1.4 Financial Statement**

##### **1.4.1 Internal Control over the Preparation of Financial Statements**

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.

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

	<b>Non-compliance with Reference to the Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	Total assets had not been presented in liquidity order in terms of Paragraph 70 of Sri Lanka Public Sector Accounting Standards 01.	The shortcoming pointed out has been acknowledged and the actions will be taken to correct it from the year 2021 .	It should present in accordance with Sri Lanka Accounting Standards.
(b)	The cheque dated 31 December 2020 amounting to Rs. 03 million had been received to the Centre by the State Ministry of Batik Handloom Textiles and Local Apparel Production for a project called 'Nawa Nirmana sari 100' for the creation of batik design sarees. Even though a Memorandum of	As there was no firm and stable position in 2020 to implement this project as revealed in the financial statements for the year 2020 , it was not mentioned in the financial statements of that year.	Because it is an event that provides evidence of the conditions that existed on the day the financial statements were reported as per the Sri Lanka Public Sector Accounting Standards, it should be disclosed in financial statements.

Understanding had been signed with Salusala institution on 27 January 2021 for the sale of productions, although this is an event that provides evidence of the situation on the day the financial statements were reported in terms of Sri Lanka Public Sector Accounting Standards 06, it had not been disclosed in the financial statements.

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| <p>(c) Although a reconciliation between the value of the Budget and the actual value should be presented as an additional expenditure column in the financial statements submitted in relation to the current period in terms of Paragraphs 21 of the Sri Lanka Public Sector Accounting Standards 15 , the Budget value related to each expenditure item of financial statements had not been presented.</p> | <p>The pointed out deficiency was acknowledged and actions will be taken to submit accurately in future years.</p>                                                                                                              | <p>It should submit in accordance with Sri Lanka Public Sector Accounting Standards.</p>                                                                |
| <p>(d) Actions had not been taken in accordance with Paragraph 37 of Sri Lanka Public Sector Accounting Standards 03 to calculate the impairment and to show the fair value in the financial statements for the recovery of doubtful balances included in the balances receivable amounted to Rs. 2,495,693.</p>                                                                                               | <p>Actions will be taken in the accounting year 2021 to make arrangements by obtaining the approval of the Board of Directors to make provisions for 2.5 per cent or a suitable percentage accordingly for doubtful debts .</p> | <p>Actions should be taken to calculate the impairment values and to show in the financial statements at the fair values for the doubtful balances.</p> |

### 1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Even though the value of fixed assets except for buildings was Rs.62,566,825 as per the Boards of Survey Reports as at 31 December 2020, since the value of those fixed assets as per the financial statements was Rs. 78,965,697, there was an unexplained difference of Rs. .16,398,872 .</p>	<p>The reasons for the difference were the failure to update the fixed asset records relating to machinery, office equipment, furniture and fixtures and lack of removing assets the disposed assets from the books. Arrangements will be made to minimize this difference by revaluating asset classes by 2020 and updating the documents furthermore.</p>	<p>Actions should be taken to identify the differences in between fixed assets and schedules and to revalue and settle the assets.</p>
<p>(b) Even though a balance of Rs. 513,115 had been stated as receivable from the Sri Lanka Handicrafts Board under trade and other receivables, since the balance payable as at that date was Rs.587,250 according to the balance confirmation letter, there was a difference of Rs. 74,135 and although a balance of Rs. 64,006 had been stated to be received from the National Crafts Council, there was no value to be paid as at that date as per the balance confirmation letter.</p>	<p>Reasons for the difference of Rs. 74,135 are being looked for.</p>	<p>Actions should be taken to recover the amount receivable.</p>
<p>(c) As a result of computing amortization of assets purchased from Treasury Funds as well as assets purchased from earned funds, the deferred income had been overstated by Rs. 458,037 in the year 2020 in calculating</p>	<p>It is accepted that the error which had occurred by a mistake in computation of the amortization for the assets purchased from the funds earned and</p>	<p>Accurate values should be calculated and accounted for.</p>

the amortization by the Centre. accordingly, actions will be taken to account for accurately in future.

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

	<b>Non-compliance to the Laws, Rules, Regulations</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	Public Finance Circular No. 03/2015 dated 14 July 2015 and Public Finance Circular No. 01/2020 dated 28 August 2020 as per the No. 371 (5) the Public Finance Circular.	Although the sub-imprest should be re-settled within 10 days of the completion of the relevant task after the issuance of the sub-imprest, even though the task was completed by the officers who had received the advance, it had elapsed a period ranging from 6 days to 96 days to the settlement of those advances.	Due to the impose of curfew in March and April and carrying out of the roster system when calling for service, the settlement of the advances had delayed.	Advances should be settled in accordance with the Circular.
(b)	Section 6.5.3 of the Public Enterprises Circular No. PED 12 of 02 June 2003	Although the annual reports with audited accounts should be tabled in Parliament in all three languages within 150 days of the end of the financial year, the annual reports of the years 2018 and 2019 had not been tabled in Parliament.	The reports of 2018 and 2019 have been submitted to the Ministry.	Actions should be taken in terms of the Circular.

- (c) Financial Regulation 105 and 109 (1) and 109 (2) Actions had not been taken to recover the loss totalled to Rs. 65,991 in respect of two road accidents and the order of removal from the book or the order of abandonment had not been obtained in accordance with the Financial Regulation if the loss could not be recovered as this. There has been no written offs and it was noted in the books as a receivable and an investigation will be conducted and appropriate actions will be taken in future. Financial Regulations should be followed.

## 2. Financial Review

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### 2.1 Financial Results

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The operating result for the year under review was a deficit of Rs. 8,045,574 and the corresponding deficit for the preceding year was Rs. 5,288,623 . Accordingly, a deterioration of Rs. 2,756,951 was observed in the financial result. This decline in total revenue by Rs. 11,480,781 had mainly attributed to this deterioration .

## 3. Operating Review

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### 3.1 Management Inefficiencies

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Audit Observation	Comments of the Management	Recommendation
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(a) Even though a total of Rs. 71,867,031 had been paid as at 31 December 2020 for the construction of a new office building, it had failed to take over the legal ownership of the Land in Katubedda where the Head Office is located and the Nattarampotha land where the Project Office is located .	The instructions have been given to take over the legal ownership of the land to the National Design Centre at the commencement of the construction works of the new building and all the preliminary works have been completed so far. The	Actions should be taken immediately to acquire the legal ownership of the lands.

plans of the land have been prepared by now and sent to the Department of Survey and activities related to the acquisition of the legal ownership of the land where the Nattarampotha Project Office is located are currently being carried out.

(b) Although it was compulsory of having a Provincial Green Certificate to the building to be constructed for obtaining the Development License from the Urban Development Authority to obtain the permission to the construction of new office building , the construction works had been carried out without receiving that certificate.

With the commencement of construction of the building in 2018, requests for green certification were also made and the Central Engineering Consultancy Bureau which was the Consultancy Company of the Building had been requested in writing to make necessary arrangements to obtain this Provincial Green Certificate.

Legal requirements should be met before the commencement of the construction .

### 3.2 Operational Inefficiencies

#### Audit Observation

The approval of the Board of Directors had not been obtained with regard to the charge of Rs.90,000 per student for the National Diploma in Interior Design and Higher National Diploma in Interior Design conducted by the Centre. The National Diploma in Interior Design, which commenced in

#### Comments of the Management

In preparing the initial plans for the upgrade to NVQ 5 level in 2018, the course fees have been revised as 90,000 with the approval of the Director because of the lecture and administration fees

#### Recommendation

The approval of the Board of Directors on the charging of course fees should be obtained and a recognized certificate should be issued for the quality of the course .

October 2018, was scheduled to be completed in April 2020 and the final results of the Course had not been released even by 31 March 2021 and the students enrollment for these courses in 2021 had not been carried out. Even though the courses were registered with the Tertiary Education Commission on 24 February 2014 and 07 years have passed since the registration, it had not been possible to upgrade to the NVQ level even by now. As a result, the certificate issued to students is not a recognized and valuable certificate in the field and it had been only a certificate of completion of the course signed by the Director and the Chairman.

increased as the number of lecture hours were high, the course was delayed to be completed due to the corona epidemic, exam results expected to be released in May, 256 students had applied through the institute's website in the year 2021, forty four students have been selected for the course through interviews and preliminary work on the syllabus has now been completed carrying out preliminary work in conjunction with the Tertiary and Vocational Training Authority to set this course to NVQ Level.

### 3.3 Underutilized Assets

#### **Audit Observation**

A provisions of Rs.51,313,305 had been made available by 31 December 2020 for the Development of technical skills and to provide advisory assistance for the handicraftsmen and handicraft teams in Batticaloa, Mannar, Vavuniya, Anuradhapura, Moneragala, Puttalam and Ampara Districts together with the National Design Centre and the United Nations Development Programme in accordance with the Agreement dated 08

#### **Comments of the Management**

The development programmes could not be implemented due to the Covid situation.

#### **Recommendation**

Arrangements should be made towards achieving the objectives of the project getting the maximum benefit from the funds received .

December 2014. Even though the final project report should have been submitted by 28 February 2018, as informed by the letter issued by UNDP on 15 January 2018, the Project had not been completed and the remaining amount of Rs. 2,312,228 had been underutilized.

### 3.4 Uneconomic Transactions

#### Audit Observation

The Batik Design Exhibition, which could not be held in 2020, had not been planned to be held in 2021 due to the risk of Covid. Accordingly, the expenditure incurred for the exhibition on 31 December 2020 amounting to Rs. 1,023,791 had been ineffective.

#### Comments of the Management

There is no need to pay for accessories for the exhibitions conduct in future years.

#### Recommendation

All the expenses should be planned and carried out as required.

### 3.5 Procurement Management

#### Audit Observation

The contract of air conditioning of new two storey building had been handed over on 28 September 2020 to a private company for a sum of Rs. 3,691,058. A Technical Evaluation Committee had not been appointed for this procurement in accordance with Procurement Guidelines 2.8.1 and the bid evaluation was entrusted to the Central Consultancy Bureau on Engineering Work. Accordingly, the consultant had prepared a report on the bid evaluation without the supervision or guidance of a Technical Evaluation Committee excluding the provisions of Section 7.3.1 (b) of the Guidelines. Even

#### Comments of the Management

Since the financial allocations received for the construction of the building were not sufficient, arrangements were made to get it done by an outside organization as per the instructions of the Central Consultancy Bureau on Engineering Works. In this, the same consulting firm selected for the construction of the entire building has

#### Recommendation

The Guideline should be followed.

though the engineering estimate was Rs. 2,501,400, the above contractor was recommended by the consultant for the highest price presented exceeding that figure by 47.6 per cent, in contrary to the Section 8.13.3 of the Procurement Guidelines.

given the necessary technical recommendations for installing this air conditioning system also . Therefore, a separate Technical Committee was not appointed to install the air conditioning system.

### 3.6 Human Resources Management

Audit Observation -----	Comments of the Management -----	Recommendation -----
<p>(a) The Director of the National Design Centre had served as Secretary of the Board of Directors at 02 sessions of Board of Directors’ Meetings held during the year 2020 . A new officer had been appointed with effect from 01 January 2021 on an assignment basis without recruiting an officer with the approval of the Department of Management Services with Rs. 30,000 per each month for a period of 03 months.</p>	<p>Even though the actions have been taken to obtain the approval of the Department of Management Services through the Line Ministry to get approved a JM 1-1 category post as Personal Assistant to the Secretary and Chairman of the Council, such a post could not be approved by the Department of Management Services and the instructions have been given to apply separately for the post of Secretary of the Council again under F.R. 70 and the instructions have been given to seek the services of an external person under the procurement system for the duties of the post of Secretary to</p>	<p>Relevant recruitments should be made after obtaining approval in accordance with the Financial Regulations.</p>

the Board of Directors until properly recruited accordingly and the actions will be taken in future.

(b) The approved staff of the centre was 116 and the actual number of employees was 85 and the vacancies were 31. The actual number of employees was 73 per cent of the approved number of employees and there were 01 senior level employee and 10, 14, 06 and 06 secondary, tertiary and primary level employees respectively within the 27 per cent of staff vacancy of the approved cadre. Actions had not been taken to fill these vacancies in the year 2020 either.

The formal recruitments will be made for the posts in future.

The top management should make arrangements to recruit approved and adequate staff to fulfill the objectives of the institution by the handicraftsmen without failure.

**4. Accountability and Good Governance**

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**4.1 Internal Audit**

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**Audit Observation**

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Although the internal audit activities for the year 2020 had been planned quarterly by the National Design Centre under 23 objectives, all of those areas were not adequately covered by internal audit reports issued during the year under review

**Comments of the Management**

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It was impossible to fulfil the activities as expected due to the Covid Epidemic.

**Recommendation**

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The internal audit should be carried out as planned and the Management should act to use the findings of the internal audit for the betterment of the institution.

## 4.2 Budgetary Control

<b>Non-compliance with Reference to the Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
There was a saving of Rs. 17,824,657 as a result of utilization of Rs. 9,533,343 out of the total allocation of Rs. 27,358,000 for 18 expenditure items and as a result of incurring a sum of Rs. 4,086,272 exceeding the allocation made for 03 expenditure items amounting to Rs. 3,265,000, a total of Rs. 821,272 had been spent in excess of the provisions.	The variance of Rs. 8,979,290 in respect of 5 expenditure items should be accurate.	Actions should be taken to incur the expenditure within the limits of the Budget Estimate.