

## **National Craft Council - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the National Craft Council (“Council”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy 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 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 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 Council as at 31 December 2023, 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**

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**

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 intends 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 Council.

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

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 Council's 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 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 statements 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 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 Council,
- Whether the Council has performed according to its powers, functions and duties; and
- Whether the resources of the council had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Audit Observations on the preparation of Financial Statements**

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

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Although all losses related to stock should be recognized as an expense in the period in terms of Paragraph 44 and 47 of Sri Lanka Public Sector Accounting Standard 9, stock of 2099.5 kg of copper wires with a cost of Rs.1,320,396 had misplaced from the Waragoda Training Centre, it had not been accounted for and disclosed in the financial statements.	Actions will be taken to disclose in the financial statements.	Actions should be taken in terms of Public Sector Accounting Standards.

### **1.5.2 Accounting Standards**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Stock sold, out of stock issued to sales agents during the year	Actions will be taken to consider the stock sells from	The sales income should be properly

	under review amounting to Rs.154,228 had not been accounted for in the financial statements.	issued stock as revenue.	accounted for.
(b)	The total balance of Rs. 4,217,663 in 75 bank accounts maintaining in the training centres belonging to the National Craft Council had not been disclosed in the financial statements.	Actions will be taken to disclose bank account balances related to training centres by final accounts from the year 2024.	All bank account details should be disclosed in the financial statements.
(c)	Adjustments had not been made in respect of expenses of Rs.1,374,177 paid in the year 2024 related to the year under review in the financial statements.	All payments received to the Accounts Division after 31/12/2023, have been accounted for as prior year adjustments.	Expenses related to the year should be properly accounted for.

## 1.6 Accounts Receivable and Payable

Audit Observation	Comments of the Management	Recommendation
It had been failed to recover a balance of Rs.2,432,122 receivable to the Council for the goods sold to the Sri Lanka Handicrafts Board in the year 2014 and a balance of Rs.84,600 to be paid by the Council to the said Board even in the year under review.	The Boards of Directors of the two institutions will take actions to enter into a certain agreement regarding the balance receivable from Laksala.	The balances receivable and payable should be settled without delay.

## 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non – compliance	Comments of the Management	Recommendation
5.3.14 (a) of the Procurement Guidelines	All future bidders should be provided with the same information and should be ensured that they are provided with equal opportunities to obtain	All bidders have been given equal opportunities and the contract value has not been revised. Actions have been taken to	All prospective bidders should be provided the same information.

additional information; the reduce security contracts had been awarded personnel and award in contrary to that, by the contract after the informing only the second selection of the bidder. bidder and reducing the number of security personnel.

**2. Financial Review**

**2.1 Financial Result**

The operating result of the year under review amounted to a surplus of Rs. 11,019,195 and the correspondence surplus in the preceding year amounted to Rs. 7,877,209. Accordingly, an improvement amounting to Rs. 3,141,986 in the financial result was observed. The decrease of total expenditure by Rs. 39,440,124 as compared to the increase of total income amounting to Rs.36,298,138 had mainly attributed to this improvement.

**3. Operational Review**

**3.1 Management Inefficiencies**

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	Even though 178 Craft Societies had been established covering all Provinces and Districts by 31 October 2023, there was no supervision and guidance other than registration, though the registration and supervision of Craft Societies should be done by the National Craft Council.	A formal programme will be prepared to aware all members of Craft Societies.	Craft Societies should be carried out actively.
(b)	Even though the Council had awarded the contract for the production and supply of 379,645 porcelain reel insulators and 39,135 porcelain bullnose insulators to a private company in the year 2021. Manufacturing without being charged, the	Since the respective institution requested to give the opportunity to turn the raw materials and semi-finished products into the planned finished products under normal service charges, the opportunity has been given.	Charges should be made based on accurate methods. Actions should be taken to take over the machineries and buildings.

units of porcelain reel insulators and the units of porcelain bullnose strain insulators supplied up to December 2022 were 112,071 and 11,996 respectively, which was only 30 per cent of the contracted amount. The building and machinery had not been handed over to the centre even though the production had been stopped in March 2023.

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| (c) | Even though more than 2 years had elapsed since the relevant works were completed, actions had not been taken to settle the retention balance of Rs.2,065,904 included in payable expenditure in the financial statements of the year 2023 . | Actions will be taken to make aware the relevant agencies and settle these retaining. | Actions should be taken to settle balances for more than two years. |
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### 3.2 Idle or Underutilized Property, Plant and Equipment

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Even though the Waragoda Ceramic Training Centre had been established primarily to provide services to artisans by conducting ceramic training courses, machinery valued at Rs. 19,415,490 as electric furnaces, wood furnaces, gas furnaces, ball mill machines, weighing scales, blender belonging to 05 sectors had remained in idle from the year 2019. Further, 02 ball mill machines and 03 electric	The basic red clay training course was started at the end of 2022 before starting the ceramic training course and the Advanced Certificate Course in Art and Design in Ceramics has been planned to be started from May 2024, with the contribution of the lectures of Aesthetic University for the trainees who have completed the course. When conducting that course, all equipment	Actions should be taken to receive optimum benefit from the assets of training centre.

- furnaces valued at Rs.2,800,000 had remained without utilizing for many years. will be fully utilized.
- (b) Equipment valued at Rs. 1,136,076 purchased in the year 2021 for raw material banks proposed to be established in Waragoda, Molagoda, Polgolla and Bulathsinghala training centres and 76 clay cubes valued at Rs.64,600 purchased for the packaging project in the year 2022 had remained underutilized. It has been stated that the actions will be taken to establish raw material banks and the raw materials will be utilized. Maximum benefit should be obtained from the resources.
- (c) Even though a land with 1.6187 hectares was obtained for the construction of Kavantissapura Village on long term lease basis from Thissamaharama Divisional Secretary in the year 2013 and lease rent of Rs.3,360,000 had been paid. A sum of Rs.18,432,042 of financial assistance from the Government of India and A sum of Rs. 8,744,211 by the Council, had been incurred and made constructions, the land and buildings had remained in idle even by the date of audit. As this project has been built on the funding of the Government of India, instructions were given in the Audit and Management Committee meeting of the Ministry to give the opportunity for other alternative investments for another 06 months and if it also fails, to transfer it back to the Divisional Secretariat. Actions should be taken to invest in Kavanthissapura Village effectively.

### 3.3 Delays in Project or Capital Works

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Even though a sum of Rs. 3,850,740 had been paid to the Industrial Development Board in the year 2022 for the production of three cane machines, the respective machines had not been received by the Council even by 31 December 2023.	Ninety per cent has been completed by Katubedda Head Office of Industrial Development Board and it has been informed in writing that the 03 machines will be delivered to our institution before 25 June 2024.	Actions should be taken to get machines quickly.