

National Crafts Council - 2012

1. Financial Statements

1.1 Qualified Opinion

In my of opinion, except for the effects of the matters described in paragraph 1.2 of the this report, the financial statements give a true and fair view of the financial position of the National Crafts Council as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Comments on Financial Statements

1.2.1 Best Accounting Practices

The statements of changes in equity had not been furnished with the financial statements in compliance with the best accounting practices.

1.2.2 Accounting Policies

The following observations are made.

- (a) The Accounting Policies adopted in the preparation of the financial statements of the Council had not been disclosed in the financial statements.
- (b) Even though it had been stated in the financial statements that the closing stock had been shown at the lesser of the cost or the net realizable value, the closing stock of the Central Provincial Office amounting to Rs.1,967,458 had been shown at the sale price.
- (c) The Government Grants received in the year under review and the preceding year had been Rs.48,450,000 and Rs.12,500,000 respectively and those grants had not been brought to account separately according to the standard practices.

1.2.3 Accounting Deficiencies

The following observations are made.

- (a) Equipment of the Sigiriya Training Division valued at Rs.338,076 had not been brought to account as fixed assets and as such provision for depreciation had not been made for the year under review.
- (b) The arrears of audit fees from the year 1992 to the year 1998 and for the years 2007, 2008, 2010 and 2011 totalled Rs.1,645,430. According to the financial statements of the Council, the audit fees payable had been shown as Rs.550,000. As such the provision for arrears of audit fees had been understated by a sum of Rs.1,095,430. Provision for the audit fees for the year under review had also not been made.

1.2.4 Unexplained Differences

The following observations are made.

- (a) According to the financial statements, the balance of the Fixed Assets Account amounted to Rs.57,283,345 whereas according to the Register of Fixed Assets, that amounted to Rs.54,544,428, thus indicating a difference of Rs.2,738,917.
- (b) The balance of the Accumulation Fund carried forward as at the end of the preceding year amounted to Rs.41,685,078 whereas the opening balance in the financial statements for the year under review amounted to Rs.45,099,373, thus indicating a difference of Rs.3,414,295.

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

Non-compliances observed during the course of audit are given below.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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|---------------------------------------|---|
| (a) Financial Regulations | Even though the advances obtained by officers should be settled immediately after the completion of the purpose, the balance of the unsettled advances as at 31 December 2012 amounted to Rs.2,640,752. Out of that advances totalling Rs.671,636 had been older than 03 years. |
| (i) Financial Regulation
371(2)(c) | |

- | | | |
|-------|--|--|
| (ii) | Financial Regulation 387 | Payments exceeding the cash balance as at the end of the year under review by Rs.4,265,560 had been made by cheques. |
| (iii) | Financial Regulation 396(d) | Action in terms of the Financial Regulation had not been taken on 52 cheques totalling Rs.257,273 lapsed for more than 06 months as at 31 December 2012. |
| (iv) | Financial Regulation 571 | Action in terms of the Financial Regulation had not been taken on deposits amounting to Rs.1,453,270 lapsed for more than 02 years. |
| (b) | Treasury Circular No.1A1/2002/02 of 28 November 2002 | The Register of Assets for Computers, Computer Accessories and Software had not been maintained. |

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the working of the Council for the year ended 31 December 2012, after the adjustment of the grants amounting to Rs.81,080,000 received from the Treasury, had resulted in a deficit of Rs.50,961,490 as compared with the corresponding deficit of Rs.2,266,819 for the preceding year after the adjustment of the grants amounting to Rs. 86,699,600 received from the Treasury for that year. As such a deterioration of Rs.48,694,671 in the financial results was observed. The main reasons for the deterioration had been the payment of salaries to the employees recruited in the year under review and the provision made for the gratuity of the employees of the Training Division as compared with the preceding year.

2.2 Analytical Financial Review

The total income of the Council amounted to Rs.80,785,936 and the total operating expenditure amounted to Rs.131,701,424. Out of that, a sum of Rs.93,771,081 or 71 per cent had been spent for personal emoluments. That as compared with the preceding year indicated an increase of 40 per cent in the staff expenses.

Nevertheless, a sum of Rs.15,796,880 or 17 per cent of the total operating expenditure only had been spent on the development of crafts and welfare which is a main function of the Council.

3. Operating Review

3.1 Performance

According to the information furnished, as compared with the preceding year, out of the 12 development programmes implemented in the year under review, progress had been shown in 10 programmes. The income of the Training Centres in the year under review as compared with the preceding year had indicated a decrease due to the decrease of the craftsmen receiving training in the higher technical training programmes and the self-employment training programmes and the decrease of Craftsmen obtaining production facilities of Training Centres.

3.2 Operating Inefficiencies

The following observations are made.

- (a) A sum of Rs.1,317,977 from the Sigiriya Information Centre Construction Project had been retained in the General Deposit Account over a period of 03 years without being utilized for any activity.
- (b) The Crafts Training Division of the Sri Lanka Handicraft Board had been transferred to the Council on 01 May 2009 and no action had been taken even up to 31 October 2013 for takeover properly the human resources and the fixed assets. Even though Sri Lanka Handicraft Board is at present maintaining a circuit bungalow in the building where the Polonnaruwa Regional Office of the Crafts Training Centre was maintained, no action had been taken up to date for the formal takeover of that building to the Council.
- (c) Even though the Board of Survey had identified the Video Camera purchased in the year 2002 with book value of Rs.328,245 in the year under review as unusable, action had not been taken for its disposal.

3.3 Idle and Underutilized Assets

The Sigiriya Crafts Village established by the Ministry of Rural Economic Development on a land 03 acres in extent, comprises 04 buildings and 40 sales stalls at present. But out of those buildings, only one building and 10 trade stalls are being used. A sum of Rs.926,416 had been spent in the year under review for the construction of the fence of the village.

3.4 Identified Losses

The following observations are made.

- (a) A sum of Rs.10,910 had been paid in the year under review as a surcharge due to the failure to remit the contributions to the Employees' Trust Fund as at the specified dates.
- (b) Even though the sum of Rs.1,431,316 had been spent in the year 2012 for repair and decoration of the showroom of the Crafts Council, that building had been demolished subsequently for another development work.
- (c) The timber bridge built at a cost of Rs.966,153 for access to the Crafts Village in the premises of the Crafts Council had been demolished even before opening for another development work.

3.5 Staff Administration

Particulars of the Staff of the Council as at 31 December 2012 are given below.

Category of Employees	Approved	Actual	Vacancies	Excess
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Executive Grades	01	-	01	-
Middle Grades	08	06	02	-
Secondary Grades	230	171	59	-
Primary Grades	<u>21</u>	<u>23</u>	<u>-</u>	<u>02</u>
Total	<u>260</u>	<u>200</u>	<u>62</u>	<u>02</u>

The following observations are made.

- (a) Maintenance of the affairs of the Council had become a contentious issue due to the post of Chief Executive remains vacant and that situation had directly affected the functioning of the Council.
- (b) Vacancies in the staff of the Council as at the end of the year under review had been 62 while the excess staff in the Primary Grade had been two.

3.6 Buildup of a Fund for the Provision made for Employees' Gratuity

The provision for gratuity as at 31 December 2012 amounted to Rs.26,921,498 but the money had not been invested to meet liabilities arising in the future.

4. Accountability and Good Governance

4.1 Budgetary Control

Significant variances were observed between the budgeted and actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control. The variances observed between the budgeted amounts and the actual amounts ranged between 14 per cent to 1,130 per cent.

5. Systems and Controls

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

- (a) Accounting
- (b) Takeover of Crafts Training Division
- (c) Settlement of Advances
- (d) Utilization of Assets
- (e) Budgetary Control
- (f) Funds Management