

## **National Design Centre – 2019**

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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 2019 comprising the statement of financial position as at 31 December 2019 and 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 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 financial statements give a true and fair view of the financial position of the Centre as at 31 December 2019 and of its financial performance and 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 determines 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 Sub-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 of the Centre.

## 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 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, 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 Centre'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 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. 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 Centre 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 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 Centre has performed according to its powers, functions and duties; and
- Whether the resources of the Centre 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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Centre is 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 the reference to particular Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
According to the Sri Lanka Public Sector Accounting Standard No. 13(a) and (b), the tangible assets expected to be utilized more than one reporting period should be shown under property, plant and equipment. Nevertheless, the value of work in progress amounting to Rs.60,117,201 which was not completed and utilized even by May 2020, had been shown as property, plant and equipment in the statement of financial position.	Not replied.	According to this Standard, action should be taken to disclose the assets in the financial statements.

### 1.5.3 Accounting Policies

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
----- Even though a sum of Rs.6,253,123 had been shown as deferred income in the statement of financial performance in the year under review, the relevant accounting policy had not been disclosed in the financial statements.	----- Not replied.	----- According to this Standard, action should be taken to disclose the accounting policy.

### 1.5.4 Accounting Deficiencies

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
----- (a) When transferring the cost of computers which removed from use to the Sale of Asset Account, that value had been transferred less by Rs.67,137. Further, the provision for depreciation pertaining to the computers removed from use had also been transferred from the Provision for Depreciation Account to the Sale of Asset Account less by Rs.387,357. As such, the loss of sale of assets had been overstated in the financial statements by Rs.320,220.	----- Not replied.	----- The accurate cost of assets removed and provision for depreciation should be eliminated from accounts.
----- (b) When computing the depreciation for computers in the year under review, that value had been understated by Rs.60,720 in accounts.	----- Not replied.	----- Provision for depreciation should be accurately computed and brought to accounts.

### 1.5.5 Unreconciled Control Accounts or Records

<b>Item</b>	<b>Value as per Financial Statements</b>	<b>Value as per Corresponding Records</b>	<b>Difference</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>		
Fixed Assets	94,611,771	76,233,036	18,378,735	Not replied.	This difference existed over a long period, should be rectified in accounts by revaluing and accounting the assets.

### 1.5.6 Documentary Evidence not made available for Audit

<b>Item</b>	<b>Amount</b>	<b>Audit Evidence not made available</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
	<b>Rs.</b>			
(a) Trade and other balances receivable	7,424,463	Letters of confirmation of balances	Not replied.	Letters of confirmation of balances receivable should be made available to Audit.
(b) Trade and other balances payable	7,328,155	Letters of confirmation of balances	Not replied.	Letters of confirmation of balances payable should be made available to Audit.

**1.6 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.**

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Reference to Laws, Rules, Regulations etc.	Non-compliance Rs.	Comments of the Management	Recommendation
<p>(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka</p> <p>Financial Regulations 1640 (ii) and 1642</p>	<p>An official motor vehicle used by the former Chairman has been used by his son while the officer was in abroad and the vehicle had been damaged due to an accident. However, a complaint in this regard had not been lodged with the Police and no action had been taken in terms of the Financial Regulations and to maintain the files in this connection.</p>	<p>The accident had occurred when the Chairman's son was taking out the motor vehicle from the garage while the Chairman was abroad. The former Chairman had not officially informed about the accident to the institution. As such, it had not been possible to lodge a complaint with the Police or to claim an indemnity.</p>	<p>Action should be taken on the accident in terms of the Financial Regulations and a file thereon should be maintained.</p>
<p>(b) Chapters XII and XV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka</p>	<p>Even though an officer should submit the leave application 03 months before proceeding abroad for a tour, the</p>	<p>It was not possible to submit the leave application before 02 months. As such, the approval of the Prime Minister also could not be obtained.</p>	<p>Action should be taken in terms of the Establishments Code and leave should be applied and approved before proceeding abroad.</p>

former Chairman of the Centre had submitted the leave application 02 days before proceeding abroad for a private tour while the approval of the Prime Minister had also not been obtained for leaving the country.

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| <p>(c) Section 6.5.1 of the Public Enterprises Circular No.PED 12 of 02 June 2003</p> | <p>Even though the Draft Annual Report should be rendered to the Audit within 60 days after the close of the financial year, a copy of the Draft Annual Report had not been rendered to Audit along with the financial statements.</p> | <p>Not replied.</p>   | <p>Action should be taken in terms of the said Circular.</p> |
| <p>(d) Public Enterprises Circular No.PED 17 of 28 October 2003</p>                   | <p>Even though prior approval of the Director General of the Department of Public Enterprises should be obtained for foreign travels, a sum of Rs.179,800 had</p>  | <p>Participation in the foreign travel has taken place on the belief that the relevant approval will be received from the Ministry.</p> | <p>Action should be taken in terms of the said Circular.</p> |

been paid for air tickets, insurance charges and incidental allowances in respect of a foreign travel made without obtaining such approval.

(e)Circular No. MIC/HR/01/2019 dated 02 April 2019 of the Line Ministry

Even though it had been emphasised not to leave the country for private or duty purposes without obtaining a prior approval, the former Chairman had proceeded abroad for a period of 14 days from 20 April 2019 to 04 May 2019 without obtaining such approval.

Prior approval for leave could not be obtained due to the urgent requirement and it was necessary to proceed abroad owing to a very urgent and unavoidable circumstance.

In terms of the Circular, leave should have been approved before proceeding abroad.

## 2 Financial Review

### 2.1 Financial Result

The operations of year under review had resulted in a deficit of Rs.65,961 as compared with the corresponding deficit of Rs.7,002,071 of the preceding year, thus an improvement of Rs.6,936,110 was observed in the financial result. Despite the decrease in the total income by Rs.4,674,346, the decrease in the total operating expenditure by Rs.11,642,296 had mainly attributed to the said improvement.



### 3. Operating Review

#### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The rates and surcharges in arrears which were payable to the Moratuwa Urban Council by the Centre for the years prior to the year 2004 aggregated to Rs.352,239. Action had not been taken to settle this loan balance remained outstanding over several years.	This outstanding amount was pertaining to the period prior to the year 2004. The relevant outstanding amount has not been paid by the institution until the prevailing issues were settled.	Action should be taken to pay and settle the rates in arrears without surcharges and obtain discounts by making payments accordingly.
(b) Since the construction work of the Head Office building was not completed up to the usable condition even by 30 May 2020, the date of Audit, a building had been obtained for a monthly rental of Rs. 84,975 to function the Education Division of the Centre. Sums amounting to Rs. 1,019, 700 and Rs.339,900 had been paid as rentals therefor in respect of the years 2019 and 2020 respectively.	As the construction work was delayed, rent agreements had to be extended from time to time. The Training Division could not be removed from the rented building until the construction work of the Head Office building was completed. It has been agreed to use the rented building further at Rs.85,000 per month and the rented building has to be used until the environment of lecture room of the new building was conducive to conduct lectures.	The office should be established in the new building without delay and action should be taken to hand over the rented building and to reduce the expenditure on rent.
(c) A two storeyed new building had been constructed at a cost of Rs. 60,117,201 as at 31 December 2019 without transferring the ownership of the	Necessary action was being taken to grant this land on long term lease basis under the intervention of Line Ministry.	The land should have been legally transferred before carrying out the construction work.

land located at No.10, De Mel Road, Katubedda , where the Head Office of the Centre was functioning. Even though the construction of this building had been completed, it could not be used for an effective purpose until May 2020 due to the failure in installing air conditioners.

- (d) One hundred and ninety nine sewing machines had been purchased in April 2018 to distribute among the trainee beneficiaries in Vavuniya and Mannar districts who have completed the textile, leather and rexine course under the Livelihood Development Project. Nevertheless, the distribution of 101 sewing machines out of the said machines to the trainees, had delayed up to 20 September 2019 while the remaining 98 sewing machines had been distributed after a delay up to 28 February 2020.
- The distribution of sewing machines had delayed due to the delay in fixing dates to distribute the machines through the Ministry.
- The sewing machines should have been distributed immediately after the completion of training on the due date as previously planned under the Project.

### 3.2 Operating Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>(a) The Director of the Centre had acted in the capacity of Secretary of the Board of Directors. The Committee on Public Enterprises held on 11 March 2019 had issued directive to make the recruitment for this post within a period of 03 months with the approval of the Department of Management Services. Despite a lapse of a period over one year since the issue of directive, no action had been taken by 30 May 2020 to make the recruitment in accordance with those directives.</p>	<p>It has been instructed to outsource until the recruitment is made.</p>	<p>Action should be taken in accordance with the directives of the Committee on Public Enterprises.</p>
<p>(b) Even though the expected net income of the year 2019 under the objective of conducting training programmes of diploma level conducted by the Centre amounted to Rs.1,000,000, a net income of Rs.528,000 had been earned during the year. As such, it was observed that the financial progress of achieving the relevant objective had been 53 per cent.</p>	<p>Even though it had been planned to enrol 70 students, only 60 students were enrolled due to the issues of inadequate space in the lecture hall. As such, the targeted income could not be earned.</p>	<p>Action should be taken to establish targets achievable and to conduct training courses in accordance with the targets.</p>

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| <p>(c) Even though an estimated provision of Rs.1,040,000 had been made during the year under review for the purposes of conducting researches on raw materials for the designs and manufacturing goods and issuing standard certificates for raw materials, the actual expenditure incurred for the functions performed during the year amounted to Rs.330,000. Accordingly, the financial progress thereof was 32 per cent and according to the information presented to Audit, the physical progress thereof had been 33 per cent.</p> | <p>Since the Assistant Director (Mechanical) who served in this Division has left the Centre as his contract period has ended and the Assistant Directress (Chemical) was on maternity leave, two researches could not be completed as expected.</p> | <p>Action should be taken to achieve the objectives set out in the Action Plan and the Act of establishing the institution.</p>                     |
| <p>(d) A project had been implemented for the development of technical skills of craftsmen and providing consultancy services during the 02 years from December 2014 to December 2016 under the financial assistance of the United Nations Development Programme (UNDP). Even though 03 years had elapsed since the completion of that project period by the year 2019, sums</p>  | <p>Not replied.</p>  | <p>Action should be taken to provide technical skills and consultancy services expected to be provided for craftsmen by the project as planned.</p> |

totalling Rs. 2,321,916 had been paid during the year 2019 as well by utilizing the money received for the said project. A sum of Rs. 2,321,228 had remained idle in a bank current account without being used for any effective purpose targeted under the Project as at 31 December 2019.

### 3.3 Procurement Management

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
<p>(a) In terms of Section 8.9.1(a) of the National Procurement Guidelines No.08 dated 25 January 2006, a written agreement should have been entered into in respect of a construction contract pertaining to the “Yugayata Nimawum” exhibition held at Kandy in August 2019. Nevertheless, such an agreement had not been entered into.</p>	<p>At the instance of awarding the contract, no agreement had been entered into by mistake.</p>	<p>Action should be taken to enter into a contract agreement in compliance with the laws and rules of procurement.</p>
<p>(b) In terms of Section 8.14.1 of the National Procurement Guidelines No.08 dated 25 January 2006, extensions of time may be granted by an authorized person, in exceptional circumstances or due to Force Majeure situations. However, the</p>	<p>Even though the contract period of the construction of building was 270 days, extension of time has to be granted due to various circumstances beyond the control. As such, construction work was carried out exceeding the due period and it was done by an officer of a consultancy firm.</p>	<p>Extensions of time should be granted by an authorized person in compliance with the laws and rules of procurement.</p>

approval granted for the extension of time beyond the 270 days allowed for the construction of Head Office building of the Centre, had not been made available to Audit.

### 3.4 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
<p>Even though the approved cadre of the Centre by the last day of the year under review was 113, the actual cadre was 87. Accordingly, there was a shortage of 26 officers in the senior, secondary and tertiary levels of the cadre when the approved cadre is compared with the actual cadre. This shortage in the cadre was 23 per cent out of the total approved cadre. Since action had not been taken to recruit to the said Post from the year 2018, Divisions such as the Internal Audit Division of the institution had become dysfunctional.</p>	<p>It was not possible as planned to recruit to posts that remained vacant due to the elections and various other reasons that took place in the preceding period.</p>	<p>Action should be taken to fill the vacancies of staff amounting to 23 per cent out of the approved cadre of the institution.</p>

## 4. Accountability and Good Governance

### 4.1 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
<p>(a) Even though the Action Plan prepared for the year 2019 had been submitted for the approval of the Board of Directors in February 2019, the Action Plan for the year</p>	<p>The Action Plan for the year 2019 had been submitted for the approval in the month of February and it was revised in July and approved subsequently.</p>	<p>The Action Plan should be prepared in the preceding year and should be submitted prior to the new year and the relevant</p>

2019 had been revised late and approved at the meeting of the Board of Directors held on 01 July 2019.

approval should be obtained in terms of the Circular.

(b) Even though the expected income under the objective of providing consultancy services on designs as per Action Plan, had been shown as Rs.500,000, no action had been taken to collect that income by the end of the year under review.

Since the consultancy services have been provided free of charge to the institutions under the purview of Ministry, a financial progress could not be stated as per the performance report.

Action should be taken to collect the expected income in terms of the Action Plans.

#### 4.2 Internal Audit

Audit Observation	Comments of the Management	Recommendation
An officer had been recruited in July for the post of Internal Auditor which fallen vacant at the beginning of the year under review. However, action had not been taken to recruit one more officer for Internal Audit and strengthen the Internal Audit Division.	Not Replied.	Only an Internal Auditor was employed in the Centre while action should be taken to establish an Internal Audit Division and recruit officers for the said Division.

#### 4.3. Budgetary Control

Audit Observation	Comments of the Management	Recommendation
In comparing the actual expenditure with the estimated expenditure pertaining to 04 Objects, incurring expenditure over the estimated expenditure ranged from 19 per cent to 23 per cent.	Not replied.	Action should be taken to control the incurring of expenditure within the annual expenditure limit targeted as per the Budget.