

1.1 Disclaimer of Opinion

The audit of financial statements of the National Crafts Council for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in net assets and the 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 Section 12 of the National Audit Act No. 19 of 2018, the Finance Act, No. 38 of 1971, and Section 20(3) of the National Crafts Council and Allied Institutions Act, No.35 of 1982. My comments and observations which I consider should be tabled in Parliament appear in this report.

Because of the significance of the matters described in the Section Basis for disclaimer of opinion of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statement of the Council.

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed based on the matters described in paragraph 1.5 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). 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 disclaimed 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 Sub-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 Scope of the Audit

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

1.5 Financial Statements

1.5.1 Non-compliances with Sri Lanka Public Sector Accounting Standards

The following observations are made.

	Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
a)	When items of revenue and expense are material, their nature and amount shall be disclosed separately in terms of Section 106 of the Public Sector Accounting Standard 01 relating to the presentation of financial statements. However, the sums totalling Rs. 18,592,230, and Rs. 17,730,526 respectively being the items of revenue and expense shown in the statement of financial performance as at 31 December 2019 relating to the Village Development Program, had not been disclosed separately in terms of nature and amount.	Even though the estimated amount was material, that sum was brought to accounts under one Head considering it was only one program.	Information should adequately be disclosed in accordance with Section 106 of the Public Sector Accounting Standard, 01.
b)	The cash flow statement should have been prepared in accordance with the Sri Lanka Public Sector Accounting Standard, 02. However, the cash flow statement had been prepared contrary to the Standard by disregarding the actual cash inflows and cash outflows of the year. Documentary explanations sufficient for examining the cash flow statement, had not been made available to the audit as well.	When preparing the cash flow statement, the expenses which were not considered as the actual cash inflows and outflows affecting the profit, were either added /subtracted to / from the profit / loss. The changes in the assets	The cash flow statements should be prepared in accordance with the Public Sector Accounting Standards, and the relevant explanations should be made available to be examined in the

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| | and liabilities that | audit. |
| | took place as | |
| | compared with the | |
| | preceding year, have | |
| | been adjusted to the | |
| | cash flow. | |
| c) | A value of Rs. 18,920,673 had been shown as the final stock in the statement of financial position as at 31 December 2019. However, the accounting policy used in measuring the stocks including the cost formula had not been disclosed in the financial statements in accordance with Section 47 (a) of the Public Sector Accounting Standard 09. | A cost formula can not be used in computing the stocks of the Crafts Council. Instead, computation was based on the cost or the net realization value, whichever was less, and the disclosure was made accordingly. |
| | | The accounting policies relating to the stocks along with the necessary explanations should be disclosed in the financial statements in accordance with the Public Sector Accounting Standard, 09. |
| d) | The material differences between the budgeted values and the actuals should be disclosed through a note in terms of Section 14 (c) of the Public Sector Accounting Standard 15. However, variances totalling Rs. 5,298, 258 relating to 07 Objects as at 31 December of the year under review had not been disclosed in the financial statements. | Observation is correct. |
| | | The material differences should be disclosed through a note in terms of the Public Sector Accounting Standard. |
| e) | In the year under review, a sum of Rs. 5,828,720 had been adjusted to the fixed assets in the financial statements as prior year adjustments. However, particulars relating to the relevant adjustments had not been disclosed in the financial statements in terms of Sri Lanka Public Sector Accounting Standard 03. | Not replied. |
| | | The Standard should be followed. |

1.5.2 Accounting Policies

Audit Observation	Comment of the Management	Recommendation
A sum totalling Rs. 137,938,889 had been shown as government grants in the statement of financial position of the National Crafts Council as at 31 December 2019. However, action had not been taken to identify an accounting policy with respect to accounting those Government grants and disclosing them in the financial statements thereby accounting the Government grants in accordance with that policy.	Not replied.	Action should be taken to account the Government grants in accordance with the Standard, and disclose the accounting policy followed.

1.5.3 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
a) When correcting the capital expenditure totalling Rs. 5,828,720 that had been brought to accounts in the year 2018 as a revenue expenditure, in the year under review, the capital contribution relating to the purchase of the relevant assets had not been added to the Government contribution. As such, the Government grant had been understated in the financial statements by that amount. Furthermore, as the capital contribution of Rs. 7,412,490 received in the years 2018 and 2019 that had been identified as a capital contribution, had not been rectified in the year under review, the accumulated deficit shown in the financial statements had been understated by the said amounts.	The adjustments made in the preceding year, have been adjusted to the cumulative development fund account whilst the said difference has been adjusted to the capital contribution.	The capital contribution spent on the purchase of fixed assets should be correctly identified and brought to the accounts. Furthermore, the overstated revenue expenditure should be corrected whilst the recurrent income and capital receipts should be correctly identified and brought to accounts.

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| <p>b) As the Government contribution relating to the capital expenditure of Rs. 964,269 incurred on the renovation of buildings in the year under review had been brought to accounts as revenue income, the deficit of the year under review had been understated by Rs. 964,269 in the financial statements.</p> | <p>Corrective measures will be taken.</p> | <p>Action should be taken to correct the revenue income that had been overstated.</p> |
| <p>c) A sum totalling Rs. 1,013,224 spent on purchasing 20 wooden coffers had been brought to accounts as buildings. Accordingly, depreciation and allocations for depreciation for the year under review had been understated by Rs. 202,645 in the financial statements owing to changes in the rates of depreciation relating to those assets.</p> | <p>Corrective measures will be taken.</p> | <p>Action should be taken to correct the buildings account and the furniture and fittings account, thereby correcting the depreciation that had been understated in accounts.</p> |
| <p>d) The revenue totalling Rs. 2,234,032 earned through the sale of items at 96 training centers of the National Crafts Council during the year under review had been deposited in 96 savings accounts, but the said revenue had not been disclosed in the financial statements of the year under review. The balances in 16 more bank accounts that had not been included in the said revenue schedule, were not verified as at 31 December 2019 whilst the balances of those bank accounts had also been omitted in the schedule.</p> | <p>The account balances relating to the training centres were not adjusted to the final accounts. Such balances have been made available as an annexure only for informative purposes. Action is being taken to close all those accounts.</p> | <p>Action should be taken to transfer the monies existing in the private bank accounts of the officers in charge of the training centres to the accounts being maintained under the name of the Council whilst the said revenue earned through the sales being brought to accounts.</p> |
| <p>e) Action had not been taken to identify the fixed assets at 112 training centers of the National Crafts Council as at 31 December 2019 thus failing to assess and account them.</p> | <p>Once the ownership is settled, action will be taken to assess and account the assets.</p> | <p>Action should be taken to account the fixed assets belonging to the training centres.</p> |

- f) Due to failure in taking action to depreciate the fixed assets totalling Rs. 964,269 that had been brought to accounts in the year under review, the depreciation and allocation on depreciation of the year had been understated by Rs. 11,873 in the accounts. The observation is correct. Action should be taken to correct the depreciation and allocation on depreciation.
- g) The bank reconciliation statement had been prepared as at 31 December 2019 without identifying and accounting the debit and credit balances amounting to Rs. 48,616 and Rs. 51,840 respectively relating to 02 current accounts maintained at Government banks. The corrections relating to the unidentified debits had been identified in February 2020 and brought to accounts. Action will be taken in due course with respect to the balances continuing to exist since the year 2012. Action should be taken to accurately prepare the bank reconciliation statements by making the relevant adjustments.

1.5.4 Unreconciled Control Accounts or Reports

Item	Value as per the Financial Statements	Value as per the Corresponding Reports	Difference	Comment of the Management	Recommendation
	Rs.	Rs.	Rs.		
Fixed Assets	85,930,638	41,534,383	44,396,255	The balance has been continuing for a long time. Action will be taken to assess the value of all assets thereby correcting the difference.	Action should be taken to identify the differences between the fixed assets and the schedules thereby revaluing the assets and settling them.

1.5.5 Lack of Documentary Evidence for Audit

Item	Amount	Audit Evidence not Made Available	Comment of the Management	Recommendation
	Rs.			
a) Journal Notes	6,873,288	Documentary evidence and documents supporting 06 journal notes.	The supporting evidence relating to the journal notes are presented herewith.	All of the documentary evidence have not been made available thus making it not possible to check for accuracy of the journal notes. Adequate documentary evidence should be made available.
b) Fixed Assets	87,090,610	Reports of the Board of Survey.	Action will be taken in due course to conduct Boards of Survey in all the provinces and present the reports.	Reports of the Board of Survey should be presented to the Audit in accordance with the Financial Regulations.
c) Instruments and Equipment	2,334,110	Documentary evidence to the effect that the instruments and equipment had been handed over to the craftsmen.	Not replied.	Evidence should be obtained in written form from the craftsmen that they had obtained the items, and such evidence should be presented to the Audit.

1.6 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
a) Sections 9.1 and 9.8 of Chapter XV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.	Contrary to those Sections, a sum totalling Rs. 35,620 had been paid as warm cloth allowance to the officers who had participated in the exhibition held in Haryana state in India	Action has been taken not to pay the warm cloth allowance since the year 2020.	The Establishments Code should be followed.
b) Section 23.18 of Chapter XII of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.	A report relating to the leave spent away from the country had not been presented to the Auditor General contrary to the said Section.	Action will be taken in due course to submit a leave report to the Auditor General monthly.	The Establishments Code should be followed.
c) Public Enterprises Circular, No. PED/17, dated 28 October 2003.	(i.) Approval had not been granted in accordance with the Circular for participating in the second handicraft exhibition held in Oman. A probationary officer had been allowed to proceed abroad for a foreign tour and made a payment totalling Rs.	The approval of the Board of Directors had been obtained in that connection on 07 March 2019, and approval of the Treasury was sought on the same day. The said funds were released in the expectation that the approval would be granted by the Treasury. However, it was informed on 13	Action should be taken to send officers on foreign tours and release funds after obtaining approval in accordance with the said Circular.

123,273 May 2019 that
contravening leave would not
the be approved
Establishmen therefor. Action
ts Code. will be taken in
due course not
to send
probationary
officers on
foreign tours.

(ii.) An A letter signed According to this
overpayment by the Circular, it is
of Rs. 44,985 Chairman with necessary to apply
had been the approval of in advance and the
made as the Board of foreign tour should
incidental Directors on the be attended only
allowance to said tour had after receiving the
the Directress been sent to approval.
of the Council the Ministry. Furthermore,
on her tour in However, due funds should be
Japan. to delays in the released for
Ministry, the foreign tours based
letter had been solely on the rates
presented to mentioned in the
the Director Circular.
General of
Budget after a
delay. Approval
had been
received later. A
sum of US \$ 75
had been paid
as incidental
allowance
whereas US \$
40 had been
approved. A
request was
made again in
that connection.

d) Circular, No. 03/2015 of The advances Letters As soon as the
the Ministry of Finance, given should be required for the completion of the
dated 14 July 2015. settled prior to the settlement of intended purpose
end of the those advances for which the
financial year in have been sent. advance is given,

terms of the Circular. However, advances totalling Rs. 258,651 given during the period 2000 – 2016 had remained unsettled even up to the end of the year 2019.

As the other advances remained unsettled over an extensive period, action will be taken in due course to eliminate them from the accounts after having discussions.

the advance should be settled, and action should be taken to settle the unsettled advances in accordance with the Circular.

- e) Financial Regulation 371(5) amended by the Circular, No. 03/2015 of the Ministry of Finance, dated 14 July 2015.
- A sub-imprest should be settled within a period of 10 days since the date of completing the relevant purpose for which the sub-imprest is issued. However, the advances totalling Rs. 1,666,100 given in the year 2019 for miscellaneous activities had been settled after a delay ranging from 11 to 102 days.
- Those advances could not be settled within a period of 10 days. Instructions have been given that the said advances be settled as soon as the intended purpose is completed.
- Action should be taken in accordance with the Circular to settle the advances as soon as the completion of the purpose.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a deficit of Rs. 688,034 as compared with the corresponding deficit of Rs. 7,068,562 for the preceding year thus observing an improvement of Rs. 6,380,528 in the financial result. This improvement had mainly been attributed by the decrease in the total expenditure by Rs. 29,886,643 despite the decrease in total revenue by Rs. 23,506,115.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) At the time of declaring open the wood carving village in Ehalagala, five electric wood carving machines worth Rs. 249,430 had been handed over to the common amenities center in the handicraft village of Sigiriya maintained by the National Crafts Council so as to be used by the craftsmen. The receipt of those items had not been recorded in the stock books. Out of those items kept in an insecure manner without being recorded in the books, the Electric Sander valued at Rs. 74,300 had been misplaced at the time of conducting filed audit inspections at the handicraft village in December 2019. No action had been taken on that misplacement in accordance with the Financial Regulations.	Those equipment will be used to provide sewing training for the Batik and handloom courses being conducted at the training center.	Those items purchased in the year 2016 should either be made use of in a productive manner or distributed among the craftsmen.
(b) There had been 18 trade stalls at the handicraft village in Sigiriya, and only 04 stalls therefrom had been used by the craftsmen. A large number of trade stalls had broken roofs and damaged walls. Those stalls were observed to have been encroached by wilderness with animals making them their habitats. As the village was not administered or	Not replied.	The management should take measures to provide trade stalls for the craftsmen and maintain them in a manner that attracts tourists.

managed in a manner that attracted tourists, the craftsmen had left the stalls due to lack of income. The responsible officers of the Council had not brought their attention to productively make use of those assets and protect them.

- (c) In order to be distributed among the craftsmen in the village of Tarapuram, Mannar, handicraft machines, sewing machines, and equipment had been purchased in December 2019 under the Enterprise based Village Development Programme by spending the provision of the Ministry totaling Rs. 1,290,486. The distribution of those items that should have been completed by 30 September 2019 as per the action plans, had not been completed even up to June 2020.
- Those items are scheduled to be distributed among the craftsmen in due course. The machines have been directly handed over to the provincial offices by the Singer company.
- Action should be taken to promptly distribute the items among the craftsmen.
- (d) Annual budget provision totaling Rs. 11,500,000 had been allocated by the Ministry in the year under review under the Handicraft Village Development Programme in order to develop 04 villages in Matara district. The National Crafts Council should have commenced that activity in July 2019 and completed by 30 November 2019. However, purchasing all the relevant items and distribution of those items had not been completed even by June 2020.
- The vouchers relating to those items have been sent to the Ministry. Once the funds have been received, action will be taken to make purchases and distribute among the craftsmen.
- Action should be taken to distribute the items purchased for the development of villages, among the craftsmen.

3.2 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Annual budget provision totaling Rs. 1,500,000 had been allocated during the year under review for providing raw materials and equipment to facilitate self employment opportunities relating to handicraft in 25 districts. However, by the end of the year under review, raw materials and equipment had been provided for 12 districts by spending a sum totaling Rs. 576,596. Accordingly, the financial progress of carrying out the said activity was 38 per cent whilst the physical progress of covering the districts was 48 per cent.	The requests of the craftsmen were received by the National Crafts Council through the Assistant Directors, and payments were made only for the duly complete requests. No funds had been received from the Treasury for the requests made by the end of the year. Action will be taken to purchase and distribute the items during the first quarter of the year 2020.	Equipment and raw materials should be provided for the craftsmen as planned.
(b) Annual budget provision amounting to Rs. 3,200,000 had been allocated in the year 2019 to introduce an insurance policy for the handicraftsmen under the “Shilpa Suraksha” insurance scheme. As only a sum of Rs. 150,000 had been spent out of that amount in the year under review, the financial progress of the project remained 5 per cent.	Due to lack of financial provision for making payments to the Insurance Corporation, and as the implementation should be done after verifying the accuracy of information furnished by the craftsmen, it is planned to implement the scheme from the year 2020.	Measures should be taken to implement the “Shilpa Suraksha” insurance scheme.
(c) It is a key activity of the Council to institute welfare schemes for the craftsmen in terms of Section 17 (f) of the National Crafts Council and Allied Institutions Act, No.35 of 1982. The provision obtained annually from the Treasury for that purpose had	A lengthy reply has been provided. Accordingly, funds could not be invested due to Treasury provision and instructions were given to temporarily	The National Crafts Council had been established to achieve the objectives mentioned in the said Act. Action should constantly be taken to achieve those objectives. Furthermore, the craftsmen should be

gradually decreased by the year 2019. Revenue totaling Rs. 173,200 had been received only in the year 2015 through the exhibitions, auctions and market stalls. Five craftsmen who had faced various mishaps requested for relief in the year 2019, but the management of the Council did not take action to provide relief for them until June 2020.

suspend the welfare programme for craftsmen as “Shilpa Suraksha” insurance scheme had to be implemented although requests had been received in the year 2019.

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| (d) | Provision amounting to Rs. 19,800,000 had been provided for the Women and Enterprise Based Village Development Programme in the year 2019. The Programme had been implemented in 05 villages by spending a sum of Rs. 8,483,095 therefrom. According to the Performance Report for the year 2019, the physical progress and the financial progress achieved through that Programme stood at 80 per cent and 96 per cent respectively. Nevertheless, no information relating to the physical progress had been mentioned in the performance report presented to the Audit after being prepared over a period of 05 months. It was observed that the financial progress of the Programme had remained as low as 42 per cent. | Not replied. | Accurate statistical data should be made available to the Audit, and the progress of the same activity should not be stated differently. |
| (e) | It had been decided to provide benefits for 600 craftsmen by allocating annual budget provision amounting to Rs. 2,300,000 under the facilitation of self-employment opportunities relating to handicrafts (raw materials / equipment). However, benefits had been given to 31 | Not replied. | Targets set through the annual budget estimates should be achieved whilst taking measures to facilitate self-employment opportunities relating to handicrafts. |

beneficiaries in the year 2019 by spending a sum of Rs. 629,000 therefrom. The financial and physical progress thereof remained 27 per cent and 5 per cent respectively.

3.3 Transactions of Contentious Nature

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
<p>(a) Despite lack of local fund for participation in the third international crafts award ceremony held in India in December 2019, an approval had been obtained by stating that funds had been available. During this period, the Chairman of the Council and the Board of Directors had left the Council whilst foreign tours for the Government officers had also been suspended. However, for the said tour, the Directress had used the sum of Rs. 288,018 existed in the sponsorship fund that had been established with the funds given by the sponsoring institutions to be used on various requirements of the craftsmen. Furthermore, the craftswoman who had brought glory to the National Crafts Council by winning an award at the said ceremony, had been informed that it would not be possible to provide her with financial assistance to take part in the foreign tour. As such, it was observed that the officers of the National Crafts Council established for the wellbeing of the craftsmen, had not made use of the funds in the</p>	<p>The craftswoman who had won the award was summoned to the Council, and asked for her consent to take part in the foreign tour. She informed that it was not possible for her to incur expenses from her personal funds and travel unchaperoned. However, due to the necessity that her work of art had to be carried to India and the award she won had to be brought back, the Directress of the Council took part in the tour.</p>	<p>No action should be taken without following instructions from the Government, Chairman and the Board of Directors. The Council should have taken measures for the winning craftsman / craftswoman to participate in the foreign tour. Monies in the sponsorship fund should be spent only on the purposes for which it was established.</p>

sponsorship fund established for the craftsmen, for the intended purpose.

- (b) A memorandum of understanding had been entered into with the International Research Centre for Intangible Cultural Heritage in the Asia-Pacific Region without obtaining approval of the Attorney General and the Secretary to the Line Ministry. The objective of the agreement was to carry out studies to safeguard the intangible cultural heritage in the Asian countries that had been affected by clashes. Provision had not been allocated through the budget in order to prepare the research reports and carry out studies, but sums of Rs. 79,651, and Rs. 368,169 had been spent in that connection in the years 2018 and 2019 respectively.
- A lengthy reply has been given in this regard. As mentioned in that reply, given the immediate requirement of signing the agreement, action had been taken to enter into the agreement without obtaining instructions from the Attorney General as obtaining recommendations of the Legal Officer had also been delayed. Instructions were issued that the relevant provisions be followed when agreements are entered into with the foreign organizations in the future. Action had been taken to settle the said expense by making use of the provision received under the capital expenditure for other foreign exhibitions. Action will be taken for prompt release of the said research report.
- Memorandums of understanding should be entered into with foreign countries and organizations only after being approved by the Secretary to the Line Ministry and receiving instructions from the Attorney General. Government funds should be spent only on the agreements authorized in that manner.

3.4 Idle or Underutilized Property, Plant and Equipment

	Audit Observation	Comment of the Management	Recommendation
(a)	<p>Ten Singer sewing machines, and a motor had been purchased spending a sum totaling Rs. 459,900 on 28 December 2016 under the Polgolla Development Project. In addition to those 10 machines, 18 machines including 04 normal sewing machines and 04 zigzag machines had not either been distributed to be used by the craftsmen or made use of for training purposes of the craftsmen. Instead, those machines remained within the packages unutilized at the regional training center in Polgolla over a period of 03 years until the year under review.</p>	<p>Action will be taken to ensure productive use of those machines. Measures will be taken in due course to properly prepare plans, identify the requirements and purchase the items.</p>	<p>The management should take action to make use of the items purchased on Government funds for training the craftsmen or distribute among them, for the intended purposes.</p>
(b)	<p>Payments totaling Rs. 123,273 had been made by the National Crafts Council during the year under review in respect of a foreign tour without being approved by the Treasury. The probationary officer who had taken part in the tour, resigned from service after 4 months since his participation in the tour. Action had not been taken to recover the fruitless expenditure incurred on the said tour, from the officers responsible.</p>	<p>This officer had resigned from service. It was informed in writing that his resignation could not be accepted until the relevant settlements were done.</p>	<p>Officers should be allowed to participate in foreign tours in accordance only with the Establishments Code and the Circulars relating to the foreign tours.</p>

- (c) As the stock of silver beads purchased to the value of Rs. 10,896,660 as at 31 December of the year under review in order to be distributed among the craftsmen as raw materials, had not been so distributed, the stock remained idle. Based on the requirements of the craftsmen, the Board of Directors pointed out that it would be suitable to give a part of the stock of silver to the craftsmen after reducing the price. It is suitable to take measures to legally provide the stock of silver remaining at the Council without being sold over an extensive period, for the craftsmen.

3.5 Procurement Management

	Audit Observation	Comment of the Management	Recommendation
(a)	As for the renovation of head office building, the validity period of the performance security had not been extended in line with the contract duration being extended thereby contravening the Guideline 5.4.8 of the Procurement Guidelines, No. 08, dated 25 January 2006.	Corrective measures will be taken in due course.	The Procurement Guidelines should be followed.
(b)	In terms of Guideline 5.4.10 of the Procurement Guidelines, No. 08, dated 25 January 2006, Suppliers are required to provide a performance guarantee in an appropriate amount of not less than 10% of the estimated contract sum in contracts for the supply of Goods. Despite being stated at the decisions taken by the committee relating to the award of procurement that performance guarantees should be	Goods had been so purchased within a period of less than a month with a view to promptly commencing the development activities. Obtaining a performance guarantee and entering into contract agreements were impractical.	The Procurement Guidelines should be followed.

obtained, goods valued at Rs. 14,650,476 had been purchased for the village development programme without obtaining performance guarantees in such a manner.

- (c) Despite being decided that an agreement should be entered into in terms of Guideline 8.9.3 of the Procurement Guidelines, No. 08, dated 25 January 2006 and the decisions taken by the Procurement Committee, goods valued at Rs. 8,779,316 had been purchased from the suppliers for the village development programme without entering into a contract agreement. Goods had been so purchased within a period of less than a month with a view to promptly commencing the development activities. Obtaining a performance guarantee and entering into contract agreements were impractical. The Procurement Guidelines should be followed.
- (d) In terms of Guideline 8.12.2 of the Procurement Guidelines, No. 08, dated 25 January 2006, a certificate of completion of works should be obtained ensuring that the Works have been carried out in accordance with the specifications and other agreed terms and conditions. However, without obtaining such a certificate, a sum totaling Rs. 3,104,426 had been brought to accounts as cost on the construction of head office building. Documentary evidence is presented herewith certifying that the works have been completed. No documentary evidence whatsoever had been made available to the Audit along with the reply. The Procurement Guidelines should be followed.

3.6 Human Resource Management

Audit Observation	Comment of the Management	Recommendation
It was revealed in the examination conducted on the cadre of the Council as at 31 December 2019 that 219 employees had been approved for the secondary level whereas the actual cadre at that level was 174 thus observing 45 vacant positions. The existence of those vacancies had attributed to the delays in discharging the functions of the Council.	Recruitment of employees to the primary level has been suspended in accordance with the letter issued by the Secretary of the Treasury, dated 20 November 2019. Accordingly, it is scheduled to make recruitments under a special approval. Action will be taken to fill the rest of the vacancies once the approval is received.	The top level management should take action to recruit the approved number of employees adequate enough to achieve the objectives of the Council from the standpoint of the craftsmen.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Comment of the Management	Recommendation
Seventeen out of the 18 audit queries issued by the Internal Audit Unit of the Council for the year under review had not been replied. Accordingly, the Internal Audit Unit had not been made use of by the management to ensure productive and efficient administration of the Council.	Action has been taken to send reminders to the officers who failed to provide replies.	The management should take action to maintain the Internal Audit Unit under proper supervision, make use of the findings thereof for the betterment of the Council, and take corrective measures for the inefficiencies.

4.2 Budgetary Control

Audit Observation	Comment of the Management	Recommendation
Expenses totaling Rs. 4,108,541 had been incurred in excess of the estimated provision relating to 07 Items of Expenditure as at 31 December of the year under review. The actual expenditure that exceeded the budgeted values ranged between 15 per cent and 341 per cent in those Items of Expenditure. As such, the budget had not been made use of as an effective instrument of management control in the year under review as well as the preceding year.	The observation is correct.	Measures should be taken to incur expenses within the limits estimated in the budget.