

## **National Design Centre - 2021**

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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 2021 comprising the statement of financial position as at 31 December 2021 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 2021 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.

## 1.5 Financial Statements

### 1.5.1 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.

### 1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the Standard	Comments of the Management	Recommendation
(a) In accordance with Section 47 of Public Sector Accounting Standard 7 of Sri Lanka, the total cost of buildings, machinery, computers, office equipment, woodwork and fixtures, tools and equipment and library books with a total cost of Rs 133,594,058, there was no review of the book value and fair value of them and action had not been taken to revalue of the assets.	Building machinery, computers, office equipment, wood furniture and fixtures, tools and equipment and library books etc. are being revalued as asset classes, under which the revalue of machines, equipment and tools in the main office has been done so far.	All assets should be revalued and shown in the financial statements at a fair value.
(b) According to Sri Lanka Public Sector Accounting Standard 9, if the stock is damaged or obsolete, a provision should be made for it and the closing stock should be valued at the lower of cost or net realizable value and should be shown in the financial statements	That the instructions have been given to sell as much of the existing old stocks as possible and to revalue the stock values during the year and enter the new values in the books.	Actions should be done according to standard.

without calculating the net realizable value of the closing stock. Its cost was estimated at Rs.5,561,132 and was stated in the financial statements

### 1.5.3 Accounting Deficiencies

----- <b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
As on 31 December 2021, In the comparison with relevant numbers of assets register and the total value of Rs. 72,409,350 for 05 items of property and equipment shown in the financial statements was a difference of Rs. 16,250,380 and compared with the asset survey reports a difference of Rs. 19,388,241 had been observed, the differences had not been reconciled and the correct values presented in the financial statements.	That in the year 2022 this difference will be minimized by revaluing according to asset classes and further updating the fixed asset register.	Differences between fixed assets and schedules should be identified and resolved.

### 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) Paragraph 3.1 of Public Administration Circular No. 30/2016 dated 29 December 2016	Fuel consumption of vehicles should be checked after every 12 months period or after 25000 km mileage, but this had not been done in the case of vehicles at the Centre.	That all reserve vehicles will be checked for fuel consumption very quickly.	Action should be done according to circulars.
(b) Public Finance Circular No. 01/2020 dated 28 August 2020 and Finance Regulations 371(5)	After issuing an interim advance, it should be settled again within 10 days after the completion of the relevant work, but there were delays from 12 days to 71 days in settling the advances worth Rs.	That the staff is made aware of the need for prompt settlement of advances and work is done to minimize delay.	Action should be done according to circulars.

1,160,710 given on 33 occasions in the year 2021.

## 2. Financial Review

### 2.1 Financial Results

The operating result for the year under review was a deficit of Rs. 4,738,976 and the corresponding deficit for the preceding year was Rs. 8,045,574. Accordingly, a improvement of Rs. 3,306,598 was observed in the financial result. This growth was mainly due to increase in treasury grants.

## 3. Operating Review

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Conducting research related to materials used for manufacturing designs, accepting and using local raw materials instead of imported raw materials, considering substitutes, issuing prescribed certificates regarding the condition and quality of said materials, maintaining laboratory workshops and other institutions, although the functions of the research section of the center only one staff officer had been assigned to the research section of the centre. Till now no laboratory was established in the center and only a very small amount of research was done annually. Regarding these researches, the extent to which they are used by the craftsmen and the follow-up of the success of the researches had not been done by the center. Until now, the center had not conducted research on materials used for industries and issued certificates about the condition and quality of those materials.	That the research section will be developed and attention will be given to carry out the necessary plans and tasks to efficiently carry out the functions related to the Institutions Act.	The research section should be established in such a way as to fulfill the objectives of the Act.

### 3.2 Underutilization of funds

----- <b>Audit Observation</b> -----	----- <b>Comments of the Management</b> -----	----- <b>Recommendation</b> -----
<p>The National Design Center and the United Nations Development Program jointly provided Rs.46,715,763 on 21 August 2015 to provide craftsman technology, capacity development and mentoring support to craftsmen and crafts groups in the districts of Batticaloa, Mannar, Vavuniya, Anuradhapura, Monaragala, Puttalam and Ampara. Although Rs.51,313,305 had been provided till 31 December 2017, there was no extension of the contract period or entering into a new contract. Rs. 14,806,278 has been saved from the money received for the project. From this amount, Rs. 2,312,228 had been kept in the account since 2019 for the implementation of further projects, but no project work had been done from it.</p>	<p>Currently, UNDP project assigned to our institution has been completed and the remaining amount of Rs. 2,312,228 under the project is expected to be spent for effective development work under the action plan, but it could not be commenced because of the covid epidemic and other problems in the country of last year. But as soon as the situation becomes normal, these funds are expected to be used for productive activities in the future.</p>	<p>The allocation should be used to get maximum benefits and action should be done in such a way that the objectives of the project are fulfilled.</p>

### 3.3 Procurement Management

----- <b>Audit Observation</b> -----	----- <b>Comments of the Management</b> -----	----- <b>Recommendation</b> -----
<p>(a) Under the Ministry's allocation, the Center had completed ten ten-day batik training course projects through a private institution. It was arranged to get this service at a price of Rs. 6,850,000 without calling for tenders based on the price estimates of the agency.</p>	<p>That there was no opportunity to spend time on the methods of selecting the time period, country conditions, raw materials, and special resources to follow the method of selecting a bid with the lowest price.</p>	<p>By following the procurement process, efforts should be made to ensure maximum benefits to the organization by selecting the lowest priced bid.</p>

- (b) The contract had been awarded to a private firm for the renovation, design and processing of the head office auditorium at a cost of Rs.4,999,001 and for the design and processing of the board meeting hall at a cost of Rs.2,498,569. The two contracts were published in the newspaper advertisement for “Design and Processing” and mentioned the estimated value of the two contracts. Due to this, according to paragraph 1.2.1 (a) of the 2006 Procurement Guidelines Code, it was not possible to obtain economic benefits through this procurement. Also, prior to selecting the procurement method of “Design and process”, the technical evaluation committee had not evaluated the same and the approval of the procurement committee had not been obtained.
- Since the written recommendation of the technical and procurement committees has not been obtained for the decision taken for the design and processing, the relevant instructions will be followed in future activities of this kind.
- The provisions of the procurement guidelines should be followed.

### 3.4 Human Resource Management

----- <b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
There are 114 approved posts in the staff of the National Design Center and the number of vacant posts was 36. Some of the vacant posts have been vacant since October 2018. Due to this, main position of the Centre, the director position, remained vacant from May 2021. Even after a year, the Center has failed to fill these vacancies.	Answers had not been given.	Recruitment should be done after obtaining the relevant approval.

#### 4. Accountability and Good Governance

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##### 4.1 Internal Audit

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Audit Observation	Comments of the Management	Recommendation
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Although the internal audit activities for the year 2021 had been planned by the National Design Centre under 22 objectives, all of those areas were not adequately covered by internal audit reports issued during the year under review	Answers had not been given.	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

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Audit Observation	Comments of the Management	Recommendation
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(a) There was a saving of Rs. 17,712,185 due to utilization of Rs. 12,449,815 out of the total allocation of Rs. 30,162,000 related to the 29 expenditure items. The saving ranged from 34 percent to 99 percent of the provision.	Answers had not been given.	Actions should be done to keep the expenditure within the limit of budget estimates.
(b) The provision of Rs.540,000 which had been made in relation to 04 expenditure items remained unutilized and the expenditure in relation to 03 expenditure items was Rs.2,167,611 and the provision was Rs.1,450,000 which exceeded the estimated provision by Rs.717,611. Rs. 659,191 had been spent without estimation in relation to 04 expenditure items.	Answers had not been given.	Actions should be done to keep the expenditure within the limit of budget estimates.