

National Design Centre - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Design Centre (“Centre”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Centre as at 31 December 2022 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 of the Centre.

1.4 Audit's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism 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 Centre's 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. 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.
- Evaluated 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 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
Sri Lanka Public Sector Accounting Standard 11		
(a) Capital grants of Rs.9,557,494 in the year under review had not been disclosed in the statement of financial performance.	It has been informed that it will be corrected in the financial statements of the year 2023.	Actions should be done according to the accounting standard.
(b) A surplus of Rs.3,323,435 was shown in the financial statements due to an amortization value of Rs.11,075,033 had being shown in the financial statements for capital grants during the year under review. Furthermore, although the capital grants of the previous year should be adjusted to the accumulated fund, on the contrary, in the statement of financial position, Rs. 109,431,667 had been stated as capital grants.	It has been informed that it will be corrected in the financial statements of the year 2023.	Actions should be done according to the accounting standard.

1.5.2 Unreconciled Control Accounts or Records

Item	As per Financial Statements Rs.	As per corresponding record Rs.	Difference Rs.	Management Comment	Recommendation
(a) Cost of 04 types of assets	62,612,120	48,638,769	13,973,351	This is because the maintenance of fixed asset registers related to these asset classes has been started since 2008 and old assets are not included in those asset registers. In the future, actions will be taken to revalue and correct it.	Differences should be identified and balances settled.
(b) Consumption value of finished stock	156,274	6,635	149,639	According to the board of Survey of 2022, unusable goods identified, which were salable but could be sold at a value lower than the cost of the goods, were deducted from finished stocks.	Inventory must be accounted accurately.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Management Comment	Recommendation
Although 09 balances with a total value of Rs.344,261 indicated under trade and other receivable balances have exceeded 03 years, actions had not been taken to recover.	Out of the balance amounting to 344,261 the amount of Rs.239,250 is due for the sample goods sold to Laksala and although reminded for collection, there is a delay in payment.	Arrangements should be made to recover the outstanding balances promptly.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Paragraph 6.6 of the Operations Manual	Although the draft annual report and	Shortage of staff and delay in completion of	Financial statements should be submitted as per circular

Public Enterprises of the financial statements board of survey were instructions. Public Enterprises should be submitted to affected to the delay Circular No. 01/2021 the Auditor General and it was informed dated 16 November 2021 within 60 days of the that actions will be end of the accounting taken to overcome this year which on shortcoming in the 28 February, the coming years. the financial statements of the year under review had been submitted late on 19 April 2023.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 3,323,435 and the corresponding surplus in the preceding year amounted to Rs. 4,902,973. Therefore a deterioration amounting to Rs. 1,579,538 of the financial result was observed. This deterioration was mainly due to the decrease of the receipt of treasury grants and ministry funds by 24,152,935 even though there was an increase in other income by Rs. 7,790,237 and the decrease in total expenditure by Rs.13,350,075.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Although 500 new designs had targeted to be introduced according to the Center's annual plans, as per the financial and physical progress submitted in December 2022, 189 new designs had been introduced to the craftsmen. It was a low percentage of 38 percent.	Although it was planned to provide new designs for 35 programs during the preparation of the annual action plan, only 18 programs had to be done due to the revision of the plan. According to that, only 18 designs that should be given to 35 programs and one of the reasons for providing less designs was, the attendance of craftsman to the training programs was not at a positive level due to the situation in the country.	Targets should be achieved according to estimates.
(b) Although Rs.36,507,029 which was 71 percent of the project money had been spent	After the completion of the activities of the project	Actions should be taken to use funds only for the

- in the period from 2015 to 2019 from the Rs.51,313,305 received by the Center under the United Nations Development Program, a project report or the performance and progress report of each program had not been submitted to the audit to check whether the money has been effectively used for the purpose of promoting craftsmen. Furthermore, Rs. 10,584,174 of the money received from this project, which was 20 percent of the total receipts, had been used for activities contrary to the objectives of the project.
- (c) Although 03 laptops worth Rs.735,000 and 02 hard disks worth Rs.42,000 had been purchased in the year 2021 for setting up the IT unit, the unit had been not set up till the audited date.
- in a manner satisfaction of the United Nations Development Program, the money left over from the program was used for several functions of the institution with the approval of the Board of Directors. In the future, the monitoring program will be implemented using the remaining funds.
- Due to the temporary suspension of the recruitment of new officers as per the circulars after the officers who were assigned for this purpose left the service, the goods purchased for this section are currently left in the warehouse. Since new purchases are currently limited, 02 computers purchased have been given for computer needs in the year 2022.
- Actions should be taken to establish the Information Technology Unit.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Observation	Management Comment	Recommendation
<p>The bamboo steamer worth Rs.255,000 purchased in the year 2021 for the cane and bamboo sector, a camera worth Rs.387,639, 2 tabs, 2 laptops since two years, a gas kiln worth Rs.148,200 and the wood kiln in which the cost of construction had been unidentified had also been idle for about 19 years.</p>	<p>The negotiations are jointly doing by the Small and Medium Public Sector and the National Crafts Council to hand over the bamboo steamer to a registered society so that it can be used by craftsmen.</p> <p>Equipment have been used by two retired officers and since no new recruitment has taken place, the equipment have been handed over to the warehouse.</p> <p>It is proposed to preserve and maintain the pottery kilns as they are useful for the educational activities of the children who are getting education.</p>	<p>Efforts should be made to get maximum benefits from the assets.</p>