

Chairman,
National Crafts Council,

Report of the Auditor General on the Accounts of the National Crafts Council
for the year ended 31 December 2002 in terms of
Section 14(2)(e) of the Finance Act, No.38 of 1971

The audit of accounts of the National Crafts Council for the year ended 31 December 2002 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 Section 13(1) of the Finance Act, No 38 of 1971. My observations which I consider, should be published with the annual report of the Council in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed audit report in terms of Section 13(7)(a) of the Finance Act will be forward in due course.

1.2 Scope of Audit

Audit opinion comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and the extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with the Sri Lanka Auditing Standards, methods and practices to obtain a reasonable assurance as to whether the financial statements are free of material misstatements. The audit included the examination of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles and significant estimates and judgments made in the preparation of financial statements, evaluation of their overall presentation and determining whether the accounting policies adopted were appropriate, consistently applied and adequately disclosed. Sub sections (3) and (4) of Section 13 of the Finance Act, No 38 of 1971 give discretionary powers to the Auditor General to determine the scope and the extent of the audit.

2. Accounts

2.1 Audit opinion

Except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that the financial statements have been satisfactorily prepared to present fairly in all material respects, the financial position of the Council as at 31 December 2002 and the results of its operations for the year then ended in accordance with the Sri Lanka Accounting Standards other than the Standards referred to in this report and the stated accounting policies as set out in Notes 01 and 02 to the financial statements.

2.2 Comments on Accounts.

2.2.1 Accounting Policies

(a) Capital contribution of the Government had been merged with the Accumulated Fund instead of being separately disclosed.

(b) Closing stocks of raw materials at the Head Office and at District Offices had been valued on the basis of varying rates. Thus there was no uniform basis for valuation of stocks. It was observed in audit that this procedure contravened the instructions contained in the Sri Lanka Accounting Standard No 5.

2.2.2 Accounting Deficiencies

(a) Cash sales amounting the Rs.1, 269,392 made during November and December 2002 from the raw material Bank in the Central Province and at Nattarampotha and from the Galle District Office had been disclosed in the accounts as an amount receivable as at the end of the year under review.

(b) An expenditure amounting to Rs.16, 689 incurred on repairs to vehicle met with an accident during the previous year and the insurance claim amounting to Rs.15, 750 receive in that respect had been brought to account in the Repairs to Vehicles Account and the Insurance Expenses Account respectively by debiting crediting such accounts without being properly accounted for.

(c) Major variations were observed between the amounts shown against 08 items of accounts in the accounts for the year 2001 and the comparative amounts for the year 2001 shown in the accounts for the year 2002. The differences in the 08 items of accounts aggregated Rs.5, 195,920.

(d) 31 items of current account balances totaling Rs.1, 164,797 continuously brought forward for over several years had been remained unchanged in the accounts for the year under review as well. The documents relating to these items were not made available to audit.

(e) Although there was no evidence of any movement in the stock of exhibits during the year under review or in the previous year, the

opening balance amounting to Rs.1, 324,840 had been increased by Rs.142, 800 to Rs, 467,640 as at 31 December 2002.

- (f) Interest receivable on fixed and savings deposits in Banks as at 31 December 2002, the assessed value of 438 library books and 05 gift items had not been brought to account whilst sales accounting to rs.202,513 had been omitted from accounts.
- (g) Rs.98,875 relating to 03 items of accounts had been inappropriately disclosed in the accounts.

2.2.3 Lack of Evidence for Audit

09 Items of accounts totaling Rs.12, 689,182 could not be satisfactorily vouched or accepted in audit due to the absence of the relevant title deeds, conformations from the parties concerned age analysis each deposit receipts etc. whist replies/adequate replies to 51 audit queries and requests for information had not been furnished.

2.2.4 Unreconciled Control Accounts

The aggregate differences amounting to rs.199, 916 between the balances in two control accounts and the balances shown in the corresponding subsidiary records had not been reconciled.

2.2.5 Transactions without Authority

A total sum of Rs.342, 927 had been paid during the year under review in respect of hire of vehicles and enrollment of an external consultant without proper approval.

2.2.6 Non - compliance with Laws, Rules, Regulations etc.

The following instances of non-compliance were observed in audit.

Reference of Laws, Rules Regulations etc.	Non - compliance
(a) Finance Act, No 38 of 1971 Sections 8(1),(3),11,13(5) (8) and 14(1)(3)	Requirement relating to the Budget Investments,Submissionof Section 13(7)(a),rendition of the draft annual report and tabling the annual report had not been complied with.
(b) Ministry of Finance and Planning Circular, No HF/6/1/11/96 of 20 April 1996 of	Circular instructions relating to foreign travel, payment of salaries and allowances procurement

	Public Enterprise Circular, Nos proceeds of 95 of 14 June 1994, 128 of establishment of 27 March 1998.	mobile telephones, sale and vehicles
	Public Administration Circular No.02/99 of 26 February 1999. Treasury Circular No.353(4) of 03 November 1999. Finance Circular No PF/PE3 of 19 November 1999 and No PF/PE 17 of 21 October 2001 and Management Services Circular No 8 of 08 November 2000.	Management and Audit Committees had not been complied with.
(c)	Section 1.4 of Chapter 11 of the Establishments Code and Financial Regulation 71	required approval had not been obtained for revision of official designations.
(d)	Financial Regulation 395	Provisions of the Financial Regulation had not been complied with in respect of the preparation of Bank Reconciliation Statements.
(e)	Sri Lanka Accounting accounts Standards 09 and 11	A complete set of accompanied by each flow statement had not been furnished. Research and Development expenses had not been identified in accordance with Standard specifications.
(f)	National Crafts Council and Allied Institutions Act, No 35 of 1982.	Requirements of the Act had not been complied with in the establishment of 04 Crafts

Councils.

1. Financial and Operating Review

3.1 Financial Results

According to the accounts presented, the operations of the Council for the year ended 31 December 2002 had resulted in a surplus of Rs1,283,664 as against the deficit of Rs.1,839,478 for the previous year.

Observations

As at the close of the year under review, provisions amounting Rs6, 651,863 in respect of depreciation on fixed assets and Rs 825,280 in respect of payment of gratuities had been made by way of allocation of funds from recurrent Government grants. However, equate Fund had not been built up to meet future liabilities as and when they arise.

3.2 Weaknesses in Financial Control

- (a) The following weaknesses in the financial control relating to payment of advances were observed in audit.
 - (i) Advances totaling Rs.2, 050,424 paid in 103 instances during the period August 1991 to December 2002 remained unsettled without satisfying the relevant objectives or duly settled or recovered.
 - (ii) Further advances had been paid to Council Officers who had failed to settle advances obtained earlier.18 instances involving a sum of Rs.409, 768 were observed in audit.
- (b) Action had not been taken to obtain refunds of security deposits amounting to Rs.99, 240 placed in external institutions for varying purposes during period ranging from 09 months to 15 1/2 years. Services to be supplied to the Institution against the relevant security deposits were disclosed to have been fulfilled.

3.3 Budgetary Control

Budget had not been made use of as an effective instrument of management control as major variations were observed between the budget and actual.

4. Systems and Controls

Special attention is needed in respect of the following areas of control.

- (a) Accounting references
 - Postings and indication of cross-
 - Accounting for accrued expenses
 - Accounting for sales.
- (b) Financial Control
 - Payment and settlement of advances
 - Security Deposits
 - Banking
- (c) Stocks and stores control

(S.C.Malyadunne)
Auditor General

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National Crafts Council

General Accounting Policies

- 1 (a) The financial statements are prepared on historical cost basis
- (b) Stocks are valued at cost.

2 DEPRECIATION OF ASSETS

Depreciation is calculated on reducing balance method.

2.1 The rates applicable for various categories of assets are as follows:

	Rate
Building	5%
Machinery & Tools	20%
Motor Vehicles	20%
Office Equipments	10%
Furniture & Fittings	10%
Display Boxes & Racks	25%
Technical & Training Equipment	10%
Other Equipments	10%
Computer Software & Hardware	10%

2.2 No depreciation is provided for library books and display items.

**NATIONAL CRAFTS COUNCIL
INCOME & EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31st DECEMBER 2002**

	NOTE	2002	2001
EXCESS OF SALES PROCEEDS OVER COST OF SALES TRANSFERRED FROM RAW MATERIAL TRADING ACCOUNT	14 -	117,106.98	116,606.41
NET DEFICIT TRANSFERRED FROM TRADING ACCOUNT FOR THE DISPLAY GALLERY	15	142,799.71	87,004.10
TREASURY GRANT - RECURRENT	13	12,740,000.00	11,945,000.00
CRAFT WELFARE FUND		419,656.95	
OTHER INCOME	16	<u>829,363.11</u>	<u>89,544.83</u>
		14,014,712.79	12,238,155.34
LESS :			
ADMINISTRATION & ESTABLISHMENT	17	9,326,160.04	8,020,508.49
RESEARCH & DEVELOPMENT	18	3,323,883.98	6,022,334.78
WRITE OFF - LANDSCAPING		-	22,515.30
PROFIT & LOSS		66,943.29	
FINANCIAL - BANK CHARGES		14,061.26	11,500.00
SURCHAGES		<u>-</u>	<u>774.75</u>
		12,731,048.57	14,077,633.32
EXCESS OF INCOME OVER EXPENDITURE		<u><u>1,283,664.22</u></u>	<u><u>1,839,477.98</u></u>

**NATIONAL CRAFTS COUNCIL
BALANCE SHEET AS AT 31ST DECEMBER 2002**

	NOTE	2002	2001
FIXED ASSETS	1	7,169,496.95	6,754,882.93
CURRENT ASSETS			
CLOSING STOCKS	2	4,728,349.66	4,013,495.78
ACCOUNTS RECEIVABLE	3	1,290,836.49	241,095.67
STAFF LOAN	4	918,575.00	714,795.00
PRE PAYMENTS	5	59,760.82	83,572.59
SECURITY DEPOSITS	6	113,240.00	97,840.00
OTHER ADVANCES	7	2,050,423.76	1,367,751.01
BANK BALANCES	8	3,660,315.57	2,882,439.77
FIXED DEPOSITS		<u>100,000.00</u>	<u>2,100,000.00</u>
		12,921,501.30	11,500,989.82
 LESS:			
CURRENT LIABILITIES			
ACCRUED EXPENSES	9	1,693,256.13	2,160,174.35
GENERAL DEPOSITS	10	<u>127,735.17</u>	<u>120,060.17</u>
		1,820,991.30	2,280,234.52
 NET CURRENT ASSETS		 11,100,510.00	 <u>9,220,755.30</u>
			18,270,006.95
 TOTAL ASSETS LESS CURRENT LIABILITIES		 18,270,006.95	
 LONG TERM LIABILITIES			
GRATUITY PROVISIONS	11	835,280.00	821,890.00
 NET ASSETS		 <u><u>17,434,726.95</u></u>	 <u><u>15,153,748.23</u></u>
 ACCUMULATED FUND			
BALANCE AS AT 01.01.2001		15,153,748.23	16,755,537.53
PREVIOUS YEAR ADJUSTMENT	12	<u>2,685.50</u>	<u>62,311.32</u>
CORRECTED BALANCES AS AT 01.01.2001			16,693,226.21
 ADD:			
TREASURY GRANT CAPITAL	13	<u>1,000,000.00</u>	300,000.00
		16,151,062.73	16,151,062.73
 INCOME AND EXPENDITURE BALANCE		 1,283,664.22	 1,839,477.98
		<u><u>17,434,726.95</u></u>	<u><u>15,153,748.23</u></u>

Sgd. S.M.D.V. Senarante,
Actg. Chairman
07.03.2003

ACCOUNTANT

NOTE : 01

**NATIONAL CRAFTS COUNCIL
FIXED ASSETS - 2002**

Cost	Buildings	Machinery	Motor Vehicles	Office Equipment	Furniture & Fittings	Display Boxes	Library Books	Bicycles	Technical Tr. Eq.	Other Equip.	Computers	Total
As at 01.01.2002	5,528,235.00	182,343.15	3,602,924.00	2,441,721.74	408,805.92	246,691.42	57,644.48	8,265.00	152,600.50	36,000.00	438,866.25	13,104,097.46
Purchases for the year	215,889.33	-	68,465.00	199,969.00	116,638.06	-	3,699.00	-	226,530.61	-	284,699.00	1,227,075.00
Work shops	111,185.00											
Write offs.	-	- 7,054.25	-167,500.00	- 210,901.08	- 24,970.00	- 97,236.80	-	- 2,150.00	-	-	-	(509,812.13)
	5,855,309.33	175,288.90	3,503,889.00	2,430,789.66	500,473.98	149,454.62	61,343.48	6,115.00	379,131.11	36,000.00	723,565.25	13,821,360.33
<u>Accumulated Depreciation</u>												
As at 01.01.2002	2,210,300.91	111,989.24	2,197,695.43	1,169,543.92	266,707.34	224,934.33	-	5,934.20	42,285.21	10,395.70	109,428.25	6,349,214.53
Depreciation for the year	171,156.00	12,784.51	279,685.76	130,267.68	21,219.15	4,922.78	-	200.80	11,031.53	2,560.43	43,831.76	677,660.40
Write off	-	- 2,511.93	- 161,860.71	- 122,375.23	- 9,338.62	- 78,174.43	-	- 750.63				- 375,011.55
Add												
	2,381,456.91	122,261.82	2,315,520.48	1,177,436.37	278,587.87	151,682.68	-	5,384.37	53,316.74	12,956.13	153,260.01	6,651,863.38
<u>Net Book Value</u>												
As at 01.01.2002	3,317,934.09	76,031.21	1,405,228.57	1,272,177.82	142,098.58	21,757.09	57,644.48	2,330.80	110,315.29	25,604.30	329,438.00	6,754,882.93
As at 31.12.2002	3,473,852.42	53,027.08	1,188,368.52	1,253,353.29	221,886.11	2,228.06	61,343.48	730.63	325,814.37	23,043.87	570,305.24	7,169,496.95