

## National Enterprise Development Authority – 2018

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The audit of the operational activities of the National Enterprise Development Authority for the year ended 31 December 2018 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 . This report shows my report in terms of Article 154 (6) of the Constitution.

### 1. Financial Statements

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

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Each audit entity should maintain its own books and records of its income, expenditure, assets and liabilities to enable it to prepare annual and periodic financial statements on that entity in terms of Section 16 (1) of National Audit Act No. 19 of 2018 . The Annual Financial Statements for each audit entity should be submitted to the Auditor General by the Chief Accounting Officer along with the Annual Performance Report of such instances as may be specified by the rules in terms of Section 16 (2) of the Act. It should be ascertained to prepare Annual Reports and other financial statements within the required time period in terms of Section 38 (1) (d) of the Act and in addition to that the Chief Accounting Officer should be responsible for presenting of the Annual Reports related to the entity which was being audited to Parliament.

#### 1.3 Failure to submit Financial Statements for Audit

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Although the Financial Statements of the Statutory Boards should be submitted to the Auditor General within 60 days after the closure of the accounting year in terms of Section 6.5.1 of the Public Enterprises Circular No. PED /12 of 02 June 2003 and the Treasury Circular No. 01/ 2004 of 24 February 2004 , the financial statements which should be presented for the Auditor General for the year 2018 had not been presented for audit even by the date of this report .

### 2. Operating Review

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#### 2.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

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Reference to Laws, Rules, Regulations etc.	Non- compliance	Comments of the Management	Recommendation
(a) Stamp Duty Act No. 12 of 2006 and the Gazette No. 1530/13 of 01 January 2008 of the	Although the stamp duty of Rs. 25 should be charged for the payments more than Rs. 25,000,	A clear answer was not given.	Actions should be taken as per the Stamp Duty Act and the Gazette.

Democratic Socialist Republic of Sri Lanka stamp duty had not been reduced with regarding the payments of Rs. 1,646,130 in 10 instances .

**(b)Financial Regulation of Democratic Socialist Republic of Sri Lanka**

**(i)Financial Regulation 104 and 105**

Even though the vehicles of the Authority had met with accidents in 05 occasions in the year 2018 , actions had not been taken in respect of them in terms of F. R. 104 and 105 .

It was impossible to act according to the F.R .since there were no qualified officials. Actions are being taken to correct the process in this year.

Actions should be taken in terms of Financial Regulations.

**(ii)Financial Regulation 110**

Although a Register of Losses and Damages should be maintained to report the damages, actions had not been taken by the Authority accordingly.

Arrangements have been made to update the Register.

Actions should be taken in terms of Financial Regulations.

**(iii)Financial Regulation 395 (d)**

Although an every Department which maintains a bank account should prepare a Bank Reconciliation Statement regarding the transaction status as at the end of each month before the 15th of following month , the bank reconciliations with

Preparation of Bank Reconciliations have been completed.

Actions should be taken in terms of Financial Regulations.

regard to the year 2018 were not prepared and submitted to the audit by the Authority.

<p>(iv) Financial Regulation 507 and 756</p>	<p>Although a Board of Survey should be conducted and a report thereon should be submitted to the Auditor General by 31 December, the Board of Surveys had not been conducted even by the date of this report for the years 2017 and 2018 .</p>	<p>The activities on Board of Survey are being completed by now. Actions should be taken in terms of Financial Regulations.</p>
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## 2.2 Cash Management

Audit Observation	Comments of the Management	Recommendation
<p>(a) Twenty four instances where the expenditures had made exceeding the advance amount granted were observed and the value thereon was Rs. 123,064 . Out of that, overpayment from a sum of Rs. 1,000 to Rs. 29,860 had been made in 19 instances.</p>	<p>Instructions have been given not to spend more than the advance amount.</p>	<p>The advances received should be spent within the limit.</p>
<p>(b) Twenty two instances where more than 30 per cent savings from the advances paid out was observed and that value was Rs. 414,211 . This was 40 per cent as a percentage out of the advances issued .</p>	<p>Since this money has been provided as an advance amount, sometimes the savings in provided advances are occurred. People who obtain advances and the Divisional Secretariats and District Secretariats</p>	<p>Advances should be given only for the amount required.</p>

which make advance payments are informed by the institutions to obtain only the required amount of money. Further, necessary arrangements have been made to control this situation.

(c) Although an advance paid to an officer should be settled as soon as the completion of the task for which it is granted in terms of F.R. 371, the advances with a total value of Rs. 135,318 in 14 instances had been given several days before the required date of the advances and the advances with a total value of Rs. 377,818 in 27 instances had been settled after a delay of 1 ½ to 3 months.

Some Divisional Secretariats implement the relevant programme after receiving of the advances requested. They mention the reason is that if they do not receive any money, they are not able to do other programmes because the money they have is also for the stipulated programmes. As a result, advances are made more earlier. Further, it had informed that the advances should be settled within 14 days of the date of commencement of the programme or before that.

Actions should be taken in terms of Financial Regulations.

Moreover, they are also advised to obtain advances a week before the scheduled date of the programme and all measures have been taken to control this situation.

(d) A sum of Rs. 10,269,812 provided in 33 instances in the year 2016, a sum of Rs. 101,985,806 provided in 344 instances in the year 2017 and a sum of Rs. 8,772,256 provided in 382

Due to the special programmes implemented in the years 2016, 2017 and 2018 the relevant bills have not been sent to be settled by the Divisional

Actions should be taken to settle the advances.

instances in the year 2018 as advances had not been settled even by 05 December 2019 .

Secretariats and District Secretariats (They have carried out programmes ) and we have made arrangements through our officers for this to go to the relevant Divisional Secretariats to settle the advances by obtaining the relevant bills and to date, a significant number of advances have been settled.

(e) Arrangements had not been made even by 31 December 2018 to recover the loan balance of Rs. 233,731 recoverable from an officer who had left the service in August 2017 .

Answers have not been given.

Actions should be taken to recover the loans.

### 2.3 Uneconomic Transaction

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Audit Observation	Comments of the Management	Recommendation
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<p>A sum of Rs. 49,507 had been incurred in the year 2017 for the publishing of a procurement notice for obtaining office space on rent and although a sum of Rs. 48,300 had been incurred again for extending the closing date of the bid related to that notice, it was observed in audit that the expenditure of Rs. 97,807 incurred for that was an uneconomic expense since the instructions received later on to maintain the office in the Ministry Building itself.</p>	<p>Although a procurement notice for obtaining an office space was published in October 2017 , as there was no response received for that, the date for accepting the bids had to be extended. However, obtaining of the new office premises has been stopped due to not providing the bids received for that notice as prescribed and the Ministry has advised to maintain the our office in the same premises.</p>	<p>Actions should be taken in a proper plan.</p>

## 2.4 Human Resources Management

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>(a) The number of employees of the Authority was 32 and the number of employees was 19 as per the information submitted to audit. There were 13 vacancies and actions had not been taken to fill those vacancies during the year under review.</p>	<p>Answers have not been given.</p>	<p>Arrangements should be made to fill the vacancies.</p>
<p>(b) A driver of the Authority had been released to the Ministry of Industry and Commerce and a sum of Rs. 191,624 as salaries and allowances and a sum of Rs. 52,901 as overtime and travelling expenses had been paid to him by the Authority up to May 2018 . Further, although the Authority had made a request, the Ministry had not reimbursed the expenditure.</p>	<p>Accepted</p>	<p>Those expenditures should be reimbursed from the Ministry.</p>
<p>(c) Even though a sum of Rs. 163,760 to advertise in newspapers in the month of September 2017 to recruit 02 Enterprise Promotion Officers and 06 Enterprise Promotion Assistants and a sum of Rs. 178,106 to advertise in newspapers in the month of September 2018 to recruit 02 Enterprise Promotion Officers and 08 Enterprise Promotion Assistants and a sum of Rs. 137,856 as well for the paper advertisements in June 2018 to fill the</p>	<p>Firstly, though a competitive examination was planned to be held through the Department of Examinations for the recruitment of 02 Enterprise Promotion Officers and 06 Enterprise Promotion Assistants, conducting of the examination was delayed due to the busy schedule of the Department of Examinations and the complexity of the examination process. Therefore, the Board of Directors had decided to</p>	<p>Recruitments should be made in accordance with the approved recruitment procedure.</p>

vacancy of the Assistant Director had been incurred , actions had not been taken to enroll for those posts even by 31 December 2018 .

recruit only through a structured interview without conducting a competitive examination. Applications were called again for this on 27/09/2018 by a newspaper advertisement. Although the arrangements have been made to call applications through the newspaper advertisement and from the institutions under the Ministry for the 01 post of Assistant Director, 01 post of Management Assistants, and 01 post of Office Assistant respectively, all recruitments had to be stopped due to the political situation existed at the end of the year.

### 3. Accountability and Good Governance

#### 3.1 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
<p>(a) The Authority had not focused on achieving the following objectives even in the year 2018 as per the National Enterprise Development Authority Act No. 17 of 2006 .</p> <ul style="list-style-type: none"> <li>▪ Stimulate and encourage the establishment and operation outside Sri Lanka of enterprises designed with a view to internationalize domestic enterprises capable of penetrating foreign markets for the fulfillment of the objectives of the Act.</li> </ul>	<p>The National Enterprise Development Authority introduces the products of Small and Medium-sized Entrepreneurs' to local and foreign markets and implements development programmes for the market success. Specially, the Authority conducts creating</p>	<p>Arrangements should be made to achieve the objectives of the Act.</p>

of new products and carry out training and guidance as well to add quality and value to the product. The local manufacturers have won over the foreign market through this and these products have been internationally recognized as well.

- Establish a Technology Development Fund to promote research and development in connection with product development, technological enhancement and commercialization of patents.

The Authority has provided the facilities to guide product development promotions and the patent ownership of Small and Medium-sized Entrepreneurs and provides necessary technical knowledge through the training programmes as well. Although the project proposals were submitted to the Department of National Planning for the establishment of a Technology Development Fund to make these technology development programmes more successful, the approval for this has not been given yet. Therefore, it has been impossible to obtain the initial capital for the establishment of this Fund.

Arrangements should be made to achieve the objectives of the Act.

- (b) The progress of the activities that were planned to be commenced and implemented during the year under review were as follows.

- (i) It was planned to prepare a Business Development Services Directory and a sum of Rs. 500,000 had been

Many revisions have been made to the Business Development Services Directory which was planned for the year 2018.

Actions should be taken to achieve the goals of the Annual Action Plan.



estimated for that to provide information to Business Development Service Providers and Micro, Small and Medium-sized Entrepreneurs and the expenditure incurred by 31 December 2018 was Rs.570,000. Nevertheless, even though that Directory had been printed, arrangements had not been made to distribute even by 05 December 2019 .

This was translated into Sinhala and Tamil in the year 2019 and it has been planned to print 5000 copies of this in Sinhala, Tamil and English languages and to distribute during the first quarter of the year 2020.

(ii) Even though a sum of Rs. 500,000 had been granted to provide training for capacity development of 50 business development service providers, only 27 business development service providers were trained and only 26 per cent of the provisions had been utilized by the end of the year 2018 .

Appropriate programmes are carried out by the National Enterprise Development Authority for the capacity building of business development service providers, especially for the human resource development. It had been planned to provide training to 50 business development service providers in the year 2018. Before providing this training, essential training requirements should be recognized by identifying the needs of these business development service providers and analyzing them by the Authority. More time was needed to identify these training needs. Later, although two programmes were planned in the year 2018, only one programme was executed during the remaining period and 27 business development

Actions should be taken to achieve the goals of the Annual Action Plan.

service providers were involved in for that.

(iii) Even though it had been planned to set up District and Regional Enterprise Forums and to conduct meetings to solve business problems, though the Regional Forums were set up and meetings were held, any new District Enterprise Forum had not been established in the year 2018 and the District Enterprise Forum Meetings had only been held in the Puttalam District in the year 2018 .

Regional and District Business Forums are being functioned at Divisional level and District level with a view of solving the problems that arise in businesses. Fourteen District Business Forums have been established by the year 2018. The Chairmanship of the District Business Forum holds the District Secretary and his contribution is very important for the formation of the Forum and to be implemented successfully. Some District Secretaries does not agree with this and this is not consisted of their scope as well. Therefore, it has been difficult to establish and maintain Forums in some Districts. The expenditure of the most of the Forums are being settled by the provisions of the District Secretariats and the expenditure of Districts that are not so, incurs by the Authority. Meetings of the 14 established Districts are being held continuously.

Actions should be taken to achieve the goals of the Annual Action Plan.

(iv) A sum of Rs. 850,000 had been allocated in the year under review to provide packaging technology training to 200 entrepreneurs. Training had been given only to 90 entrepreneurs in Matara and Kegalle Districts by the end of the year 2018

Although it was planned to provide packaging technology training of businessmen to 200 beneficiaries in five Districts in the year 2018, it was limited to two Districts and there were 90 beneficiaries. This training programme was conducted by the Sri Lanka Institute of Packaging.

Actions should be taken to achieve the goals of the Annual Action Plan.

and 41 per cent of the estimated provisions had been spent for this purpose.

However, it was impossible to get the service of resource persons from this agency by the end of the year and therefore, the Authority was unable to carry out these programmes.

(v) Even though a sum of Rs. 4.5 million had been allocated under the Upadhidari Vyavasayake Udanaya programme by planning to train 150 graduates and to provide financial facilities to 25, Two hundred five graduates were trained and a sum of Rs. 1,825,000 had been granted as financial facilities only for 13 graduates.

It has been planned to train 150 graduates and to provide financial facilities to 25 under the Upadhidari Vyavasayake Udanaya.

A number of 205 graduates have been trained in the year 2018 and 25 were identified for financial facilities.

However, the Authority was able to provide financial facilities to about 13 graduates in the year 2018 based on the funds received that year. Financial facilities have been granted in the year 2019 for the remaining graduates. Only a sum of Rs. 4.5 million was allocated for this programme.

Actions should be taken to achieve the goals of the Annual Action Plan.

(vi) Although an allocation of Rs. 200,000 has been made to obtain the ISO certification in the year 2018, only a newspaper advertisement was published to obtain the service of a consultant to strengthen the Quality Management System of the Authority. Even though a total of Rs. 232,142 had been incurred as a sum of Rs. 71,262 in the year 2016, Rs. 125,000 in the year 2017 and Rs. 35,880 in the year

A newspaper advertisement was published incurring a sum of Rs. 71,262 in commencing necessary activities to elect a Consultant on ISO Quality Certification by following the government procurement process in the year 2016 by the Authority with the view of obtaining ISO-9011-2015 quality certification. Since a 70 per cent of the consultancy work has been completed selecting a consultancy firm in the year 2017, a sum of Rs. 125,000 which was the

Actions should be taken to achieve the goals of the Annual Action Plan.

2018 to obtain the ISO certification, necessary actions had not been taken to obtain the ISO certification even by the end of the year 2018 .

50 per cent out of the relevant payment of Rs. 250,000 was paid. However, due to problems existed in the organization, this process was temporarily stopped in the year 2017. Nevertheless, newspaper advertisements were published incurring a sum of Rs. 16,560 in Dinamina and incurring a sum of Rs. 19,320 in Daily News to elect a new consultant in the year 2018 due to the higher need of the Authority to obtain ISO certification. However, since the Final Accounts and Annual Reports of the institution have not been prepared, the process for obtaining ISO certification has been temporarily suspended by the Board of Directors in the year 2018 .

(vii) A sum of Rs. 5.7 million had been allocated by the Ministry of Industry and Commerce to the Authority in the Action Plan of the Ministry for the year 2018 for the development of youth enterprises proposed by the Authority to be implemented. A sum of Rs. 1.14 million had been provided as advances for the programme in August 2018 by the Ministry. It had been planned to train 225 persons from 9 districts with 25 vocational trainees from each district and to provide financial

A sum of Rs. 5.7 million had been allocated as per the Action Plan of the Ministry of Industry and Commerce for the year 2018 for the programme for development of youth enterprises. Out of that, a sum of Rs. 11.4 million had been provided to the Authority as advances. Providing necessary enterprise development training and equipment later on, for 100 vocational trainees in the Western Province had been targeted through this programme. Applications were received from the vocational trainees

Actions should be taken to achieve the goals of the Annual Action Plan.

assistance for 180 persons with a sum of Rs. 100,000 per each for the commencement of businesses. Even though this programme should have been fully implemented during the year 2018, only a two days training in preparation of business planning was given identifying 100 beneficiaries of the Western Province by the end of the year 2018 . Only a sum of Rs. 678,914 had been incurred from the funds allocated for this programme by the end of the year.

in the Western Province contacting the vocational trainees of the Authority and 100 were selected out of that. The Authority had to spend more time on this. The required enterprise development training was given to 100 entrepreneurs selected thereby. Since there was no adequate time, only the beauty culture sector was selected and made arrangements to obtain machinery equipment for 28 beneficiaries and those were purchased. A sum of Rs. 1.49 million was spent in the year 2018 for this programme. Equipment was distributed to the beneficiaries in the year 2019 .

**(viii)** A sum of Rs. 7 million had been allocated for the year 2018 under Know how Project aiming 100 Micro, Small and Medium-sized Entrepreneurs from One District by planning to conduct awareness programmes on leasing, lease process, laws and regulations in relation with labour and regarding the services of the Consumer Affairs Authority under the first stage of this. Nevertheless, that programme was held only in 14 Districts and only the number of 373 entrepreneurs had participated in the programme out of which 06 Districts. Only 31 per

This programme was implemented by the National Enterprise Development Authority as per the Action Plan for the Ministry of Industry and Commerce for the year 2018. For this purpose, a sum of Rs. 7 million had been allocated.

A sum of Rs. 2.187 million was spent for this. This programme was conducted as awareness programmes for businessmen with the involvement of the Department of Inland Revenue, the Department of Labor and the Consumer Affairs Authority . The recommended amount for this programme was able to be obtained in the middle of the

Actions should be taken to achieve the goals of the Annual Action Plan.

cent of the estimated provision relating to the year 2018 had been spent.

year and it has been able to the Authority to operate only in 14 Districts. Since only Small and Medium-sized businessmen who need for these programmes were aimed, though some programmes have poor attendance the programmes were conducted in very successful manner and the participants were very pleased. This programme was conducted in the remaining Districts in the year 2019 .