

Transactions of the National Enterprise Development Authority - 2022

The audit of the operational activities of the National Enterprise Development Authority for the year ended 31 December 2022 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 and Section 20(2) of the National Enterprise Development Authority Act, No.17 of 2006. The financial statements for the year 2022 required to be submitted in terms of section 13(6) of the finance Act had not been submitted even as at the date of this report. My observations in connection with only the operations of the Authority in the year under review which I consider should be presented to the parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

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

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.

2. Financial Statements

2.1 Presentation of Financial Statements

According to Section 6.6 of the Operational Manual for Public Enterprises published by Public Enterprise Circular No. 01/2021 dated 16 November 2021, the financial statements and draft annual report should be submitted to the Auditor General within 60 days of the end of the accounting year, but the financial statements for the years of 2021 and 2022 had not been presented to audit even as at the date of this report.

2.2 Assets, Liabilities, Income and Expenditure

The details of assets, liabilities, income and expenses shown in the financial statements as at 31 December 2020 last prepared by the Authority are given below.

Item of the financial statement	Value
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	Rs.
<u>Assets</u>	
Non-current Assets	12,125,428
Current Assets	19,272,809

Total Assets	31,398,237
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<u>Equity and Liabilities</u>	
Equity	6,554,761
<u>Liabilities</u>	
Non-current Liabilities	11,051,564
Current Liabilities	13,791,915

Total Liabilities	31,398,240
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Total Income	55,811,496
Total expenditure	53,628,592

Surplus	2,182,904
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2.3 Non-compliance with Laws, Rules and Regulations

The cases where the rules and regulations were not complied with are stated below.

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulations 103 and 104	<ul style="list-style-type: none"> In the period from 2015 to 2019, a laptop computer worth Rs.99,890 and two tab computers worth Rs.61,900 belonging to the Authority were misplaced, but action had not been taken in this regard as per Financial Regulations 103 and 104 in the year under review. 	The Audit and Management Committee has advised to inform the Board of Directors to take further steps regarding misplacement of goods. Accordingly, the related activities were being carried out so far.	Actions should be taken in terms of Financial Regulations.

	<ul style="list-style-type: none"> In the year 2020, the cab numbered PD-6379 was being driven by the chairman and the engine of the vehicle was damaged due to insufficient application of water. According to the inspection report conducted in accordance with the Financial Regulations, it was recommended that the amount of Rs.498,110 spent for the repair should be recovered from the chairman. However, the Authority had not taken steps to recover the said amount even in the year under review. 	<p>Accepted and it was requested from the former Chairman Director General to collect the said amount through letters on several occasions, but did not receive any response, therefore advice was sought at the Audit and Management Committee meeting to carry out further work on this matter. It is informed that further action is being taken accordingly.</p>	<p>Actions should be taken to recover the amount recommended to be recovered.</p>
(ii) Financial Regulations 395 (c)	<p>Although every institution having a bank account should prepare a bank reconciliation statement regarding the transaction status at the end of each month before the 15 of the following month, the Authority had not prepared bank reconciliation statements related to the years 2022 and 2023 by 30 October 2023.</p>	<p>Preparation of bank reconciliations is a major function of accounting in the institution and here the Accountant of the Authority has not done this task properly. Accordingly, as per the decision of the Board of Directors, disciplinary action has been initiated against the Accountant. Action will be taken to inform its progress in the future.</p>	<p>Actions should be taken in terms of Financial Regulations.</p>
(iii) Financial Regulations 502(2)	<p>As mentioned in Volume 11, a standard classification system was not followed for fixed assets in use with each division, and a corporate symbol number was not given for fixed assets. Also,</p>	<p>The necessary activities have been taken to update all the fixed assets of the company with a number and fixed asset records by now.</p>	<p>Actions should be taken in terms of Financial Regulations.</p>

the physical amount of the assets mentioned in the fixed asset register was not compared with the fixed asset ledger. Due to non-adherence to the internal control systems regarding the assets, there was no confirmation to the management regarding the physical existence of the assets in the Authority and due attention was not paid by the management regarding the security of the assets.

(b)	Financial Regulation 756 as amended by Public Finance Circular 01/2020 dated 28 August 2020.	The appointment of the Board of Survey for the relevant financial year should be done before 15 December and the Board of survey report should be forwarded to the Auditor General before 31 March of the next financial year. But the Authority appointed the Board of Survey for the year 2022 on 31 May 2023, with a delay of 05 months and the Board of Survey report had not been submitted to the Auditor General by 30 November 2023.	Accepted and that the appointment of the 2022 annual Board of Survey was delayed due to the lack of staff in the Authority. The staffs on that day were busy with other development activities of the institution and it was difficult to contact them for these tasks. However, in the middle of the year 2023, it was possible to appoint the Board of Survey for the year 2022.	Actions should be taken in terms of Financial Regulations.
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3. Operational Review
3.1 Performance

	Audit Observation	Comments of the Management	Recommendation
(a)	Attention was also not focused on achieving the following objectives of the Authority as per the section 13 (b) and 13 (g) of the National Enterprise Development Authority Act No. 17 of 2006 in the year 2022.		

- (i) In order to achieve the objectives of the Act, encourage the establishment and operation of enterprises outside Sri Lanka with the aim of internationalizing local enterprises to conquer foreign markets.
- For the purpose of internationalizing enterprises, special programs to encourage the establishment and operation of enterprises outside of Sri Lanka are not implemented by the Authority, but the current development programs indirectly contribute to this purpose. Our entrepreneurs have been referred to the Export Development Board which has been specially established for this purpose. However, the Authority expects to implement development programs related to this purpose mentioned in the Act.
- Action should be taken to achieve the objectives of the Act.
- (ii) Establishment of a Technology Development Fund to promote research and development related to technological advancement, product development and commercialization of patent rights.
- As stated in the Authority Act, the Authority has not yet been able to create a technical fund for the provision of these technical services as well as the technology related to the commercialization of patent rights and promotion. Although proposals were submitted in 2019 for the National Planning Department to provide basic funds for this, it was not possible to get approval for it. But in the future, the Authority has planned to prepare proposals for this and get approval and get financial facilities through it.
- Action should be taken to achieve the objectives of the Act.
- (b) The progress of the works planned to be implemented during the year under review was as follows.
- (i) It was planned to register at least 500,000 entrepreneurs for the data system under the project of establish a data system related to micro, small and medium enterprises. But no entrepreneur was registered during the year under review.
- During the year under review, it was planned to enter 500,000 data in the data system of micro, small and medium enterprises and it was possible to enter 260,000 data. Due to technical issues with this system, the target amount could not be entered. Technical problems in the data system are currently being fixed.
- Actions should be taken to accomplish the planned tasks.

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| (ii) In the year under review, it was planned to give Made in Sri Lanka logo to at least 50 entrepreneurs, but a single logo had not been given. | The brand will be offered to selected enterprises in 2023. During the year under review, formalization of selection criteria, benefit register of brand logo, application required for on-site inspection of applicants, application required for on-site inspection, observation form as well as a formal method of awarding brands were prepared. From the year 2023, the Authority is able to achieve the proper goals through this program. | -Do- |
| (iii) In the year under review, It was planned to give financial aid to 20 graduate entrepreneurs under the Graduate Entrepreneur Udanaya program, but only 07 entrepreneurs were given financial aid. | Although as capital expenditure for the year under review Rs.40 million was allocated, the Authority had been received Rs.14.8 million Only. Therefore, although Rs.3.5 million had been allocated for this program in the year under review, the Authority had to make financial grants only for 07 graduates based on the limited allocations received by the Authority. | -Do- |
| (c) The Authority had not introduced evaluation criteria for timely follow-up or evaluation of the entrepreneurs developed through training and financial support and the number of active entrepreneurs emerging from each development program was not confirmed to assess their entrepreneurial progress. Therefore, it was not possible to assess the progress of the Authority's main objective of producing active entrepreneurs. | The implementations of the training programs conducted through the Divisional Secretariat Offices as well as the follow-up activities are done by the Enterprise Development Officers who perform the duties of the Divisional Secretariat Office. In relation to this program, identification of the training needs of the target groups has been given to the local officials with complete knowledge and understanding regarding the organization and all the follow-up activities and accordingly they are working. And all the data and information is maintained by the local officials. They maintain the beneficiary documents as well as the data and information of the entrepreneurs being built. They will carry out the evaluation and follow-up of the beneficiaries and from the year | Action should be taken to introduce assessment criteria and assessment of entrepreneurship progress. |

2024, a form will be introduced containing the criteria.

3.2 Advance Control

Audit Observation	Comments of the Management	Recommendation
<p>As per the Finance Regulation 371(2) (b) as amended by Public Finance Circular 01/2020 dated 28 August 2020, an advance given to an officer shall be settled immediately on completion of the work assigned. Advances of Rs.3,250,234 were given on 173 occasions during the year under review and advance amounting to Rs.82,000, Rs.399,690, Rs.48,000, Rs.10,000, and Rs.88,000 given in the years 2017, 2018, 2019, 2020, and 2021, respectively, had not been settled as at 31 December 2022.</p>	<p>The advances mentioned here are given for the programs done through the Divisional Secretariats. Advance payments are made according to the circulars and financial regulations mentioned herein and regarding the delay in settlement, the development officers working in the respective Divisional Secretariats have been consulted and instructed to settle the advance settlement at the proper time.</p>	<p>Actions should be taken in terms of Financial Regulations.</p>

3.3 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Although a total amount of Rs.232,642 was spent for the Authority to obtain ISO certificate and Rs.71,762 in 2016, Rs.125,000 in 2017, and Rs.35,880 in 2018 respectively, arrangements had not been taken to obtain ISO certification during the year under review.</p>	<p>Due to the impact of Covid in the past years, it has been difficult to carry out these activities. For this, the internal procedures of the institution should have been prepared and submitted by the Authority. Also, due to the request for money to prepare and submit internal procedures for the institution selected for these activities, due to the lack of sufficient financial allocation for the same, and due to the lack of sufficient staff to prepare these procedures internally, the implementation of these activities has</p>	<p>Action should be taken to obtain ISO certification immediately.</p>

been delayed. Also, due to the delay in the preparation of the final accounts of the respective years, and delay of audit activities about that, it was not possible to conduct the quality audit. Provision had not been made for these activities for the year under review.

- (b) In accordance with 5,4,2 of Chapter 1 of the Establishment Code, when a large number of applicants apply for a small number of vacancies, the appointing authority may limit the number of applicants to five (5) for each vacancy in cases where the number exceeds 25. The Authority had called 119 applicants for one Enterprise Promotion Officer vacancy, 264 applicants for 06 Enterprise Promotion Assistant vacancies, and 224 applicants for 02 Management Assistant vacancies and a cost of Rs.122,875 was incurred for the payment of postage, catering expenses, and interview panels.
- Accepted. The recruitment of the Authority is carried out according to the recruitment procedure approved by the Department of Management Services of the Ministry of Finance, and no method has been mentioned in it as mentioned here. In order to give equal opportunities to all the qualified applicants who have applied, the management decided to call all the qualified applicants for interviews as per the recruitment procedure. Actions have been taken accordingly.
- Action should be taken as per the Establishment Code.