## National Enterprises Development Authority – 2014

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The audit of financial statements of the National Enterprises Development Authority for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 National Enterprises Development Authority Act, No. 17 of 2006. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2) (c) of the Finance Act appear in this report.

### 1.2 Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### 1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgements, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority 's preparation and fair presentation of the financial statements 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 Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## 1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## 2. Financial Statements

### 2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Enterprises Development Authority as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### 2.2 Comments on Financial Statements

#### 2.2.1 Sri Lanka Accounting Standards

Even though income and expenditure should not be set off in terms of Sri Lanka Accounting Standard 01, the balance of Rs.599,666 after deducting the expenditure of Rs.286,834 incurred on Issue Tracker in the year under review out of the sum of Rs.886,500 granted for the improvement of Public Private Dialogue Issue Tracker Website by the Asia Foundation, had been shown under current liabilities in the name of Asia Foundation.

#### 2.2.2 Accounting Deficiencies

The following observations are made.

(a) The under-computation of annual depreciation on property, plant and equipment as at 31 December 2013 by a sum of Rs.1,029,430 had not been rectified in the year under review, thus the value of property , plant and equipment had been overstated by the similar amount.

(b) Even though the annual depreciation for furniture amounted to Rs.28,079, only a depreciation of Rs.14,040 had been shown in the financial statements, thus a depreciation amounting to Rs.14,039 had been understated.

(c) A sum of Rs.1,428,000 payable for the Rupavahini Programme, “Diriyata Saviya” in the year 2013 had not been brought to account in that year and in paying that amount in the year 2014, it had been brought to account as an expenditure of the year under review instead of adjusting that amount to the retained profit in the financial statements.

(d) Audit fees amounting to Rs.269,100 payable for the years 2012, 2013 and only a sum of Rs.147,920 had been brought to account as the audit fees payable for the year 2014 without being estimated the audit fees payable, thus the accrued expenditure had been understated in the accounts. The audit fees for the year 2011 amounting to Rs.131,040 had been paid from the capital provision of the year under review.

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

The following non-compliances were observed.

| Reference to Laws, Rules, Regulations, etc. | Non - compliance |
|---|---|
| (a) National Enterprises Development Authority Act, No. 17 of 2006<br>(i) Section 3(b) | Seven members should be chosen from among persons who have experience and knowledge in the fields of finance, trade, banking, agriculture, industry, technology and law for the Board of Directors of the Authority. Nevertheless, 05 members included in the Board of Directors of the year 2014 represented the field of trade while the details of the field of one Directress were not made available to audit. |
| (ii) Section 19(3) | A Technology Development Fund had not been established by the Authority. Even though a provision of Rs.500,000 had been made for the establishment of a Technology Development Fund with a view to introducing the new technology for the small and medium entrepreneurs, that objective could not be achieved as the necessary approval had not been received in the year 2014. |
| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | |
| (i) Financial Regulation 110 | A Register of Losses had not been maintained. |
| (ii) Financial Regulation 756 | A Board of Survey for the year under review had not been carried out on the equipment and fixed assets belonging to the Authority. |

## 3. Financial Review

### 3.1 Financial Results

According to the financial statements presented, the financial result of the Authority for the year ended 31 December 2014 had been a surplus of Rs.3,527,892 as against the deficit of Rs.521,069 for the preceding year, thus indicating an increase of Rs.4,048,961 in the financial result of the year under review as compared with the preceding year. The increase in the Treasury grants by Rs.1,868,800 and the amortization of Government grants by Rs. 3,117,523 during the year under review had been the main reason for the said increase in the surplus.

An analysis of financial results of the year under review and 04 preceding years revealed deficits in the years 2010, 2012 and 2013 and a surplus in the years 2011 and 2014. However, in readjusting the employees' remuneration and depreciation on the non-current assets to the financial result, the positive contribution of the year 2010 amounting to Rs.5, 602,105 had increased continuously up to Rs.19, 486,750 by the year 2014.

## 4. Operating Review

### 4.1 Performance

The following observations are made.

(a) According to the Action Plan of the year 2014, it was planned to establish District Enterprise Forums in all Districts and out of a provision of Rs.700,000 made, 81 per cent had been spent by the end of the year. However, only 34 Regional Forums had been established under 14 District Enterprise Forums.

(b) Even though it was planned to update and print the Directory of Enterprise Development Services in all three languages and distribute it for the dissemination of information of the enterprise development service providers among the small and medium entrepreneurs and making aware them about the entrepreneurship, the relevant Directory had not been prepared and distributed in Tamil medium.

(c) Plans had been made to telecast 12 Television Programmes of "Diriyata Saviya" and to prepare 04 newsletters for the dissemination of information on small and medium entrepreneurship during the year 2014. Nevertheless, only 08 programmes had been telecasted and one newsletter was being prepared.

(d) Even though a provision of Rs.5,300,000 had been made for industries namely Furniture, Coir, Handicraft, Light Engineering, Cashew, Clay, and Handloom Textiles and Industries under the Geographically Specific Industries Development Programme, no programmes had been conducted to develop the industries of Light Engineering ( Kurunegala) and Cashew. Even though it had been decided to develop the capacity of 04 exporters and 25 entrepreneurs for the development of Coir Industry and Light Engineering (Gampaha) Industry respectively, the expected results had not been achieved.

(e) A provision of Rs.100,000 had been made for the participation of 50 visitors to the International Trade Exhibitions with the intention of facilitating the access to the new technology and international market by small and medium entrepreneurs. Nevertheless, the relevant institutions had not been identified in the year 2014, thus the said amount had been spent on an exhibition organized by the Industrial Development Board.

(f) Even though a provision of Rs.500,000 had been made in the year 2014 for the introduction and development of Internal Systems of Control required by the institution to obtain the International Standard Certificate, that activity had not been carried out.

**4.2 Management Activities**

Two laptop computers valued at Rs.280,000 obtained by a former officer of the Authority prior to the year 2012 had not been returned to the Authority even by the end of the year under review and due attention had not been paid by the Management to recover those assets.

**4.3 Underutilization of Funds**

The Action Plan and the Budget of the Year 2014 had been revised in three instances from time to time, thus the Action Plan and the Budget could not be made use of as an instrument of regulatory control of the performance of the Authority. The underutilization of provision allocated for the activities included in the Action Plan of the year 2014 presented to audit, ranged between 4 per cent and 33 per cent.

**4.4 Uneconomic Transactions**

Even though a building obtained on rental basis by the Authority on 10 April 2014 for the functioning of office had been modernized at a cost of Rs.1,030,004, that building had been used for only 09 months and subsequently, the office had been functioned in another building.

**4.5 Staff Administration**

The approved cadre of the Authority stood at 32 and the actual cadre was 23, thus 09 vacancies existed as at 31 December 2014. Further, a post of Coordinating Officer which was not included in the cadre approved by the Department of Management Services, had been created and salaries amounting to Rs.340,000 had been paid to an officer recruited to the said post in the year 2014.

**5. Accountability and Good Governance**

**5.1 Presentation of Financial Statements**

Even though the financial statements should be presented to audit within 60 days after the close of the year of accounts in terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements of the year 2014 had been presented to audit on 26 January 2017. Further, the Draft Annual Report had not been presented.

## 5.2 Budgetary Control

Variances ranging between 15 per cent and 1098 per cent were observed between the estimated income and expenditure and the actual income and expenditure, thus observing that the budget had not been made use of as an effective instrument of management control.

## 6. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

| Areas of Systems and Control | | Observations |
|---|---|---|
| (a) Advances | (i) | Granting advances exceeding the requirement and granting advances again before the settlement of advances granted. |
| | (ii) | Considerable delays in the settlement of advances and failure to settle the advances before the end of the relevant year. |
| (b) Maintenance of Books and Registers | | Non-maintenance of a Register of Assets. |
| (c) Accounting | (i) | Failure to use the relevant journal entries and to number the journal entries and incorrect numbering of journal entries in the accounting of opening assets and liabilities. |
| | (ii) | Non-presentation of subsidiary registers relevant to the journal entries. |
| | (iii) | Failure to compute and accounting for the depreciations on fixed assets accurately. |