

National Enterprise Development Authority - 2018

1. Financial Statements

1.1 Adverse Opinion

The audit of financial statements of the National Enterprise Development Authority (Authority) for the year ended 31 December 2018 comprising the statement of Financial Position as at 31 December 2018 and the statement of comprehensive income , statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements , the 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. Due to the delay in financial statements, the Report on the Transactions of the Authority has been tabled in Parliament on 24 July 2020 in three languages .Further , my comments and observations which I consider should be report to Parliament appear in this report. In my opinion, because of the significance of the matters described in the Basis for Adverse Opinion of my report, the accompanying financial statements do not give a true and fair view of the financial position of the Authority as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka accounting standards.

1.2 The Basis for Adverse Opinion

Based on the matters described in paragraph 1.5 of this report , I express an adverse opinion. 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 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 Authority’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 Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Authority 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 / Authority.

1.4 Responsibilities of the Auditor for 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.
- Obtain 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude 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 corporation'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 Authority to cease to continue as a going concern.
- Evaluate 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 Authority and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority,
- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations

1.5.1 Noncompliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
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<p>(a) LKAS 16 :- Property Plant and Equipment</p>		
<p>(i) According to the paragraph 51 of the Standard, the residual value and the useful life of an asset should be reviewed at least at each financial year end and if expectations differ from previous estimates, the change should be accounted as a change in an accounting estimate in accordance with LKAS 8. However, the residual value and the useful life of machinery, motor vehicles, office equipment, furniture and fittings, library books, accounting software and computers and computer accessories with a written down value of Rs. 7,476,170 as at 31 December 2018 had not been reviewed.</p>	<p>All the assets of the organization will be analyzed and corrected in the next accounting year.</p>	<p>The standard should be followed.</p>
<p>(ii) According to the paragraph 79 (b) of the Standard, although the carrying value of property, plant and equipment that is fully depreciated but still in use should be disclosed in the financial statements, the carrying value of 03 motor vehicles, 22</p>	<p>The assets mentioned here will be re-verified and corrected in the next accounting year.</p>	<p>The standard should be followed.</p>

office equipment, 37 computers and accessories which were fully depreciated and still in use had not been disclosed in the financial statements.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
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<p>(a) According to the share certificate issued in the year 2017 by a subsidiary company of the Authority, although 60 shares of Rs. 10 each out of the 100 stated shares of that company had been issued to the Authority, the issuance of shares had not been shown in the financial statements of the Authority for the year under review.</p>	<p>The B-express Company has mentioned regarding the shares in the articles of association of the company' and shares have not been issued. However , currently the necessary arrangements are being made to issue the shares.</p>	<p>The issuance of shares should be shown in the financial statements of the Authority for the year under review.</p>
<p>(b) A capital grant of Rs. 46,450,000 had been given to the Authority by the Ministry of Industry and Commerce to establish an Incubation and Technical Transfer Centre. The amount had been recognized by the Authority as an income and due to the fact that the expenditure incurred for it had been shown as an investment in the subsidiary company under the current assets of the Authority, the accumulated surplus and current assets of the year under review had been overstated in the financial statements by Rs. 46,450,000 .</p>	<p>Grants were received from the Ministry of Industry and Commerce for the establishment of B-Express Limited and all the receipts were incurred to the institution itself and the amount has been shown as an investment in the financial statements.</p>	<p>Grants received for construction of buildings and for the purchase of assets of a subsidiary company should not be recognized as an income of the Authority.</p>

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs 3,645,633 and the corresponding surplus in the preceding year amounted to Rs. 27,372,346. Therefore a deterioration amounting to Rs 23,726,713 of the financial result was observed. The main reason for the deterioration had been the decrease of other income by Rs. 22,165,367.

3 Accountability and Good Governance

3.1 Presentation of Financial Statements

Audit Issue -----	Management Comment -----	Recommendation -----
According to the Section 6.5.1 of the Public Enterprises Circular PED/12 dated 02 June 2003, financial statements should be submitted to the auditor General within 60 days after the close of the accounting year. However, financial statements for the year under review had been presented to the Auditor General on 18 August 2022.	The final accounts will be submitted to the audit on the due date from the year 2022.	The financial statements and draft annual report should be submitted to the Auditor General within 60 days after the close of the accounting year.