

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the National Enterprise Development Authority (“Authority”) for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a 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 a delay in the financial statements, the activity report in three languages related to Authority had been tabled in parliament on 09 February 2023. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**1.2 Basis for Qualified Opinion**

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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 Auditors Responsibilities for the Audit of 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 Authority'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 Observation on the Preparation of Financial Statements**

### **1.5.1 Non-Compliance with Sri Lanka Accounting Standards**

	<b>Non-Compliance with Reference to the Relevant Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	According to Sri Lanka Accounting Standard 07, transactions that are recorded when calculating profit before tax should be recorded as adjustments to operating activities in the statement of cash flows under the indirect method. But Rs.1,654,913 amounting to the previous year's error correction value adjusted in the mass separation statement had been deducted under adjustments in the cash flow statement. Furthermore, according to paragraph 49 of Sri Lanka Accounting Standard 08, the information related to these wrong corrections related to the previous year was not disclosed in the financial statements.	Action will be taken to correct the final accounts for the year 2021.	Action should be taken in accordance with the Sri Lanka Accounting Standards.
(b)	According to paragraph 34 of Sri Lanka Accounting Standard 16, property and equipment should be revalue every 3 or 5 years, but as at 31 December of	At present, all the fixed assets owned by the institution are being analysed and the necessary activities are being carried out. Accordingly, the	Action should be taken in accordance with the Sri Lanka Accounting Standards.

the year under review, motor vehicle amounting to Rs.24,168,892, office equipment amounting to Rs.1,652,421, offices furniture amounting to Rs.7,166,093 and computers and accessories worth Rs.5,873,613 and plant and machinery worth Rs.1,192,332 had not been revalue for a long time.

necessary activities are being carried out to do the related revaluation activities once in 4 years. Therefore, after the revaluation, it will be corrected in the next accounting year.

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| (c) | According to Sri Lanka Accounting Standard 38, intangible assets should be recognized in the financial statements, but the micro, small and medium enterprise data system installed at a cost of Rs.500,000 was not recognized as an intangible asset and was shown as program expenses in the financial statements. | Necessary action will be taken to record as capitalized items from next year. | Action should be taken in accordance with the Sri Lanka Accounting Standards. |
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### 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
In the year under review, due to the fact that depreciation was not accounted for office furniture and tab computers, the value of which was Rs.645,744 and Rs.7,737,500 respectively, the depreciation expenses and provision for depreciation were underestimated by Rs.64,574 and Rs.1,934,375 respectively.	Depreciation had been done in the next accounting year. Action will be taken not to make such mistakes in the future.	Depreciation for the year should be correctly calculated and accounted.

### 1.6 Accounts Receivable

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Action had not been taken to recover the receivable amounting to Rs.170,712 which was due from B Express Ltd. within one year.	B Express Ltd has been restructured in the year 2023 and necessary actions have been taken to recover the amount due.	Action should be taken to recover the receivable balances.

## **2. Financial Review**

### **2.1 Financial Result**

The operating result of the year under review amounted to a profit of Rs.2,182,904 and the corresponding profit in the preceding year amounted to Rs.2,753,223. Therefore a deterioration amounting to Rs.570,319 of the financial result was observed. The main reason for the deterioration is the increase of administration expenses by Rs.1,083,387.

## **3. Operational Review**

### **3.1 Management inefficiencies**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
A Business Development Service Provider Directory containing information needed by entrepreneurs was printed at a cost of Rs.852,070 and 500 copies each in English and Tamil. There was no distribution plan for the distribution of these directories, and as of the date of this report, 68 English language copies remained and were not properly stored. Also information about the remaining Tamil language copies was not provided.	These printed copies were given to the appropriate enterprises identified in the trade fairs implemented by the authority and the authority plans to give the remaining printed copies to the entrepreneurs in need during trade fairs and development programs in the future.	The need should be identified and copies should be printed and distributed systematically according to a distribution plan.

## **4. Accountability and Good Governance**

### **4.1 Presentation of Financial Statements**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
According to Section 6.5.1 of the Public Enterprise Circular No. PED/12 dated 02 June 2003, 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 related to the years 2020 and 2021 had not been submitted for audit by the date of this report.	Comments had not been given.	The financial statements and draft annual report should be submitted to the Auditor General within 60 days of the end of the accounting year.