National Enterprise Development Authority - 2011

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1. Financial Statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 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 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Sri Lanka Accounting Standards

The following observations are made.

(a) The statement of changes in equity had not been presented along with the financial statements in terms of Sri Lanka Accounting Standards 03.

(b) The formal cash flow statement had not been prepared in terms of Sri Lanka Accounting Standards 09.

1.2.2 Non-compliance with Laws, Rules, Regulations, etc.

The following instances of non-compliance were observed during the course of audit.

Reference to Laws, Rules, Regulations, etc.,	Non-compliance
(a) National Enterprise Development Authority Act, No. 17 of 2006. Section 19(3)	Even though the Authority should establish a National Enterprise Development Fund and all the monies allocated or received for technical development activities should be credited to such Fund in terms of the relevant provision, action had not been taken in accordance with such provision.
(b) Public Enterprise Circular No. PED/12 of 02 June 2003	
Section 5.2.1	The budget had not been prepared and submitted to audit in terms of the circular provision.
Section 6.5.1	Although the financial statements for the year 2011 should have been presented to audit within 60 days after closure of the financial year, the financial statements of the Authority had been presented for audit only on 28 June 2012 after a delay of 04 months.

2. Financial and Operating Review

2.1 Financial Review

2.1.1 Financial Results

According to the financial statements presented, the operations of the Authority for the year under review had resulted in a surplus of Rs.530,441 as against the deficit of Rs.1,759,693 for the preceding year, thus indicating a favourable improvement in the financial results by Rs.2,290,134.

2.1.2 Analytical Financial Review

Although the development expenditure for the year under review had increased by Rs.10,521,203 or 120 per cent as compared with the preceding year, increase of grant received from the Treasury for recurrent expenditure and deferred capital income by Rs.21,654,073 or 113 per cent had mainly attributed for the favourable improvement of this operational results by Rs.2,290,134.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

(a) A vehicle assigned to the former Chairman had met with an accident on 04 February 2008 while he was out of the Island at that time a person who is not a driver had driven this vehicle. Any further action had not been taken considering that the relevant person had afforded the losses incurred by the accident and thereby financial losses were not incurred to the Authority. The procedure to be followed at the time of occurring accident to any asset belonging to the Government Institution were shown in F.R 101 and 113and as such any formal action such as fixing of responsible officer relating to the accident, the manner of recovering losses, obtaining copy of the Police report had not been followed by the Authority with regard to this accident.

(b) The Authority had obtained the service of a Consultant since the year 2008 and consultancy fees amounting to Rs.720,000 at the rate of Rs.60,000 per month had been paid during the year 2011. However, a report consisting of services supplied by the relevant Consultant, report prepared by him, supervision or projection activities carried out etc. had not been submitted for the year 2011 and as such it could not be ruled out in audit that this consultancy fee is a fruitless expenditure to the Authority.

(c) A sum of Rs.3,240,149 had been spent from the Funds of the Authority for partitioning of the office space in an extent of 4,441 square feet of a building belonging to a private company obtained by the Authority during the year under review by paying Rs.4,382,072.

4. Accountability and Good Governance

4.1 Corporate Plan

The following observations are made.

(a) According to the Action Plan, a sum of Rs.23 million had been provided for 15 activities. However, a sum of Rs.23 million had been provided only for Object Code 2107 in the Annual Estimate. Any estimate had not been submitted for 10 items under Object Code 2107 (Other expenditure). Further, scope of the enterprise development had not been specifically identified for the period for which the Corporate Plan had been presented.

(b) Provision had not been made in the expenditure estimate submitted as annual budget relating to items under the Enhancement of Effectiveness shown as 03rd activity in the Action Plan. A sum of Rs.0.5 million had been provided for 04th activity (Cleaner Production) shown in the Action Plan relating to final two quarters. But, provision had not been made in the annual budget in this regard. A sum of Rs.02 million had been allocated for 05th activity in the

Action Plan for first two quarters of the year 2011 while a sum of Rs.11.4 million had been shown in the annual estimate for the year 2011.

(c) Although a sum of Rs.05 million had been shown in the annual budget relating to sub items from 6.1 to 6.5 in the 6th activity of the Action Plan, it had not been presented in the manner of comparing the financial value relating to each item. Similarly, it was not specifically presented so as to identify from which item the allocation of funds for 7th and 8th activities had been made.

Accordingly, it was observed in audit that Action Plan and Budget had not been prepared based on the Corporate Plan.

4.2 Budgetary Control

Significant variances were observed between the actual expenditure and the budgeted value of expenditure for the year 2011, therefore, it was observed in audit that the management had failed to make use the budget as an effective instrument of management control.

5. Systems and Controls

Deficiencies in systems and controls 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.

(a) Accounting
(b) Staff
(c) Budgetary Control
(d) Expenditure Control