

National Enterprises Development Authority - 2013

The audit of financial statements of the National Enterprises Development Authority for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 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 Public Sector 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 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.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the National Enterprises Development Authority as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Non-compliance with Laws, Rules, Regulations and Management Decisions.

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.	Non - compliance
(a) Section 19(3) of the National Enterprises Development Authority Act, No. 17 of 2006	Even though all the monies provided or received to establish a Technological Development Fund by the Authority for technological development activities should be credited to that Fund in terms of relevant instructions, that Fund had not been established even by the end of the year under review despite a lapse of eight years from the date of Act.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulations 103 and 104	Action had not been taken to recover the financial loss amounting to Rs.56,279 incurred to the Authority relating to a motor vehicle met with an accident in the year 2012 from the responsible party even by 31 December 2013.
(ii) Financial Regulation 371(2)(b)	<ul style="list-style-type: none">Contrary to the provisions, advances totalling Rs.1,287,099 had been paid in 31 instances exceeding the limit of Rs.20,000 while advances totalling Rs.348,240 had been granted to non-staff grade officers in 10 instances.

- Despite the previous advances not settled, further advances totalling Rs.529,350 been granted in 25 instances.
- In the payment of advances, the purpose and the exact amount of the advance required had not been accurately identified. As such, savings totalling Rs.944,330 or over 30 per cent of the advances granted in 45 instances were observed.

(c) Public Enterprises Circular
No.PED/ 58 dated 29 April 2011

Even though the approved monthly allowance of the Chairman was Rs.50,000, he had been paid at the rate of Rs.62,695 per month from January to July of the year 2012. As such, an overpayment totalling Rs.111,083 had been made comprising the allowances of Chairman amounting to Rs.88,865, ten per cent additional allowance of Rs.8,890 and the contributions to Employees Provident Fund and Employees Trust Fund amounting to Rs.13,328. Nevertheless, action had not been taken to recover the overpaid amount.

(d) Letter No. NSCC/2/7/5/5/113 dated
01 June 2011 of the Salaries and
Cadre Commission

As salaries and allowances exceeding the approved salary had been paid to the Director of the Authority, an overpayment of Rs,504,900 had been made as at 31 December 2013 comprising a sum of Rs.252,450 and Rs. 252,450 during the year 2012 and the year under review respectively.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Authority during the year under review had resulted in a deficit of Rs.521,069 as compared with the corresponding deficit of Rs.2,050,079 for the preceding year. Accordingly, a favourable improvement of Rs.1,529,010 in the financial results of the year under review was observed as compared with the preceding year. Decrease of development expenditure by Rs.1,093,254, increase of grants received from the Treasury and deferred capital income by Rs.1,349,337 and the decrease of recurrent expenditure by Rs.179,004 had mainly attributed to the above improvement.

4. Operating Review

4.1 Apparent Irregularities

Two laptop computers valued at Rs.280,000 obtained by the former Chairman on 05 December 2008 had not been returned to the Authority even by 24 December 2014.

4.2 Projects not reached the Targets during the Year

The following observations are made.

- (a) Approval for the draft of Small and Medium Enterprises Policies which was planned since the year 2011 had not been obtained up to 24 December 2014.
- (b) The target under the programme for the establishment of District Enterprise Forums (DEF) which was planned since the year 2011 and to establish forums in every district and to hold 75 discussions thereon during the year under review had not been reached. At present, only 10 forums are functioning and out of the provision of Rs.300,000 made for the year under review, 95 per cent or Rs.283,663 had been spent. Nevertheless, the physical progress expected by the Action Plan had not been achieved.
- (c) The provision made in respect of the project for the selection of 20 out of 80 successful entrepreneurs under the “Upadhidhari Vyaparika Udanaya” amounted to Rs.2,500,000 out of which only an expenditure of Rs.234,448 had been incurred as at 31 December of the year under review. Only initial discussions had been held while none of the successful entrepreneurs had been selected.
- (d) A provision of Rs.3,550,000 had been made for six industries namely Furniture, Coir, Handicraft, Light Engineering, Lapidary, and Handloom Textiles under the programme under the geographically specific industries Development Programme. Nevertheless, no progress in the Furniture and Lapidary industries had been achieved as expected by the Action Plan. Further, only less than 30 per cent of the progress expected by the Action Plan had been achieved by the other industries as well.
- (e) Even though it was planned to implement the Capacity Building Programme for the identification of competitive business opportunities in three districts, selection process of institutions to operate those programmes had not been finalized.

4.3 Underutilization of Funds

A provision of Rs.10,554,839 made in respect of nine key functions included in the Action Plan for the year ended 31 December 2013 had remained underutilized.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the financial statements of the Authority should be presented for audit before 28 February of the ensuing year after the close of the year of accounts in terms of Section 6.5.1 of the Public Enterprises Circular No. PED 12 dated 02 June 2003, the financial statements for the year 2013 had been presented for audit only on 14 July 2014.

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.

- (a) Control over Projects
- (b) Maintenance of Journal Vouchers