

Transactions of the National Enterprise Development Authority - 2023

The audit of the operational activities of the National Enterprise Development Authority for the year ended 31 December 2023 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 the National Audit Act No. 19 of 2018 and the Finance Act No.38 of 1971. My comments and observations which I consider should be presented to the parliament appear in this report.

1.2 Responsibilities of Management and Those Charged with Governance For the Financial Statements

Each audit entity should maintain its own books and records of its income, expenditure, assets and liabilities to enable it to prepare annual and periodic financial statements on that entity in terms of Section 16 (1) of National Audit Act No.19 of 2018. The annual financial statements for each audit entity should be submitted to the Auditor General by the Chief Accounting Officer along with the Annual performance report of such instances as may be specified by the rules in terms of Section 16 (2) of the Act. It should be ascertained to prepare annual reports and other financial statements within the required time period in terms of Section 38 (1) (b) of the Act and in addition to that the Chief Accounting Officer should be responsible for presenting of the annual reports related to the entity which was being audited to parliament.

2. Financial Statements

2.1 Presentation of Financial Statements

According to Section 6.6 of the Operational Guideline for Public Enterprises published by Public Enterprise Circular No. 01/2021 dated 16 November 2021, 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 for the years of 2023 had not been presented to audit even as at the date of this report.

2.2 Assets, Liabilities, Income and Expenditure

The details of assets, liabilities, income and expenses shown in the financial statements as at 31 December 2022 last prepared by the Authority are given below.

Item of the financial statement	Value
-----	-----
	Rs.
<u>Assets</u>	
Non-current Assets	14,615,806
Current Assets	20,797,660

Total Assets	35,413,466
	=====
<u>Equity and Liabilities</u>	
Equity	20,544,005
	=====
<u>Liabilities</u>	
Non-current Liabilities	10,791,212
Current Liabilities	4,078,249

Total Liabilities	14,869,461
	=====
Total Income	47,639,043
Total expenditure	43,898,460

Surplus	3,740,583
	=====

2.3 Non-compliance with Laws, Rules and Regulations

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i)Financial Regulations 119	The investigation conducted in accordance with the Financial Regulations regarding a mechanical defect that occurred in the cab bearing number PD-6379 while it was	The first and second reminder letters were sent to recover the amount of Rs.498,110 spent for this repair, but that gentleman did not respond. Therefore, on	Recovery of loss should be done as per the recommendations of the inspection report.

being driven by the recommendations of Chairman in the year the audit committee, 2020 had necessary recommended that the arrangements are amount of being made to Rs. 498,110 spent on forward the relevant repairs should be letter to the Ministry recovered from the of Industry with a Chairman. However, copy of the action had not been committee's report to taken to recover that file a case through the amount by the end of legal department of the year under the Ministry of review. Industry.

- | | | | |
|------------------------------------|--|---|--|
| (ii) Financial Regulations 395 (c) | At the end of each month, a bank reconciliation statement should be prepared before the 15 of the following month regarding the transaction status, but the Authority had submitted the bank reconciliation statement for the month of December 2023 for audit on 19 July 2024, after a delay of 6 months. | Agreed. According to F.R. 395 (c), bank reconciliations are currently prepared before the 15 of every month. | Action should be taken to prepare the bank reconciliations on the due date as per the Financial Regulations. |
| (iii) Financial Regulations 502(2) | A standard classification system was not followed for the fixed assets in use by each division and the physical amount of the assets mentioned in the fixed asset register was not compared with the fixed asset ledger. Management could not confirm the physical presence of assets due to non- | It is accepted that there are errors in the fixed asset management of the Authority. Necessary actions have been taken to correct the deficiencies pointed out in the query. The assets of the Authority are numbered using QR codes and its enhancement is currently underway. | Fixed asset existence, security and record keeping should be dealt with according to Financial Regulations. |

adherence of internal controls regarding assets and due attention of management was not paid regarding the security of assets.

- (b) Financial Regulations 756 (6) as amended by Public Finance Circular No. 01/2020 dated 28 August 2020
- The Authority had appointed the Committee of Board of Survey for the year 2022 on 31 May 2023 with a delay of 05 months, and only an unsigned draft report by the Committee of Board of Survey had been submitted for audit by 30 August 2024. Furthermore, the Board of Survey reports for the year 2023 had not been submitted to the Auditor General by 30 August 2024.
- It is accepted that the appointment of the Committee of Board of Survey in relation to the year 2022 has been delayed. The survey report related to the year 2022 was given by the Committee of Board of Survey on 02 August 2024 and referred to the audit and management committee for observation and is scheduled to be presented for the next board meeting. The Committee of Board of Survey for the year 2023 has been appointed on 11 December 2023 and most of the work related to this survey has been completed by now.
- According to the Financial Regulations, Board of surveys should be conducted and reports should be submitted.
- (c) Paragraph 4.4 of the Guidelines for the Good Governance of Public Enterprises introduced by Public Enterprise
- The position of the internal auditor was not established in the carder of the Authority and an acting officer was appointed for that purpose.
- Comments had not been given.
- Action should be taken to appoint an internal auditor as per circular provisions.

Circular No.
01/2021 dated
16 November
2021

2.4 Advance Control

Audit Observation	Comments of the Management	Recommendation
(a) In terms of Finance Regulation 371(2) (b) as amended by public Finance Circular No. 01/2020 dated 28 August 2020, although an advance given to an officer should be settled immediately after completion of the given work, during the year 2023, advances amounting to Rs.2,891,029 were given on 185 occasions and had not been settled by 30 September 2024.	Agreed. At present, the concerned officials have been informed about the advance settlement and settlement activities are being carried out.	Actions should be done as per the Financial Regulations which include provisions for control of advances and settlements should be made as soon as the given work is completed.
(b) Also, the advances of Rs.353,850, Rs.586,330, Rs.657,322, Rs.213,575, and Rs.4,327,165 given in the years 2017, 2018, 2019, 2021 and 2022, respectively, had not been settled by 31 December 2023.	Agreed. At present, the concerned officials have been informed about the advance settlement and settlement activities are being carried out	Actions should be done as per the Financial Regulations which include provisions for control of advances and settlements should be made as soon as the given work is completed.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) A report or a database where all information, such as the location, date, number of trainees who participated, details of each enterprise development program held, expenses incurred, advances paid, details of the settlement of those advances, and enterprise development progress of the trainees, had not been maintained in the relevant section.	Agreed. During the year under review, records containing all the information are not maintained and only some information is maintained in the district and head office. The Authority expects to receive this information formally through local officials in the year under review and in future.	Action should be taken to maintain an up-to-date data system on enterprise development including complete and accurate information.
(b) Although in 2016 Rs. 71,762, in 2017 Rs. 125,000, and Rs. 35,880 in 2018, a total of Rs.232,642 was spent to obtain the ISO certificate by the Authority, the ISO certificate had not been obtained by the end of the year under review.	Due to the relocation of the institution to several locations on several occasions since 2016 and the impact of Covid in previous years, these activities have not been practically possible. For this, the Authority was required to prepare and submit the institution's internal procedures, but these activities have been stalled due to reasons such as the lack of sufficient financial provisions to pay the selected institution and the lack of sufficient staff at that time to prepare these procedures internally. Also, due to the delay in preparing the final accounts for the relevant years, the audit work was also delayed, making it impossible to conduct a status audit of the institution at that time. At present, funds have not been allocated to obtain ISO, and once the above activities are completed, the necessary activities to obtain ISO can be resumed.	Action should be taken to obtain ISO certification as planned without delay.

3.2 Procurement Management

Audit Observation	Comments of the Management	Recommendation
<p>A master procurement plan had been submitted only for major goods, services and works, and a detailed procurement plan had not been prepared in accordance with paragraph 4.2.1 of the Procurement Guidelines. Also, the start and end dates of the procurement activities had not been determined in the master procurement plan that had been prepared, and instead the start and end dates of the accounting year had been used.</p>	<p>Agreed. Since the Authority will not receive funds from the Treasury within the relevant dates as planned, it is not possible to mention a specific date for the relevant procurement activities. Therefore, the starting and ending dates of the accounting year were used for this purpose.</p>	<p>Detailed procurement plans should be prepared including all procurement tasks with specific periods of time as per the Procurement Guidelines.</p>

4. Accountability and Good Governance

4.1 Failure to achieve objectives

Audit Observation	Comments of the Management	Recommendation
<p>(a) As per Sections 13 (b), 13 (e) and 13 (g) of the National Enterprise Development Authority Act No. 17 of 2006, attention had not been paid to the achievement of the following objectives of the Authority by the end of the year under review.</p>	<p>(i) Encourage the establishment and operation of enterprises outside Sri Lanka with the aim of internationalizing</p> <p>Agreed. With the aim of internationalizing enterprises, the current development programs are indirectly contributing to the establishment and operation of enterprises outside Sri Lanka. Our entrepreneurs have been referred to the Export Development</p>	<p>Achieving the objectives of the Act should be prioritized.</p>

local enterprises Board, which has been established capable of specifically for this purpose. However, conquering foreign from the year 2024, in order to achieve markets. this objective, entrepreneurs will be encouraged to participate in international trade fairs, participate in workshops/discussions to build business coordination through local and foreign chambers of commerce, conduct foreign business field visits for technology transfer, etc., so that opportunities will arise for establishing businesses outside Sri Lanka.

(ii) Establish a Technology Development Fund to promote research and development related to technological advancement, product development and commercialization of patent rights. Agreed. The Authority has not yet been able to establish a technical fund as stated in the Act. Although proposals were submitted to the Department of National Planning in 2019 to secure initial funding for this, approval has not received. It has been planned to propose and obtain approval for this in the future to obtain financial facilities. Achieving the objectives of the Act should be prioritized.

(iii) Although it was planned to introduce at least 25 suppliers through franchise shops included in the 2023 action plan under the development of infrastructure facilities to meet development needs, not a single franchise shop had been started during the year under review. In accordance with Section 13(e) of the Act, it was planned to establish franchise markets in the 2023 action plan for the development of necessary infrastructure to meet development needs. A suitable party could not be found for this. Also, due to lack of sufficient funds, the money was used for other effective activities. Achieving the objectives of the Act should be prioritized.

(b) The Authority had not introduced evaluation Agreed. The Authority implements entrepreneurship development programs Steps should be taken to introduce

criteria for timely follow-up or evaluation of entrepreneurs developed through training and financial assistance, and it was not ensured that evaluations were conducted regarding the number of active entrepreneurs generated from each development program and their entrepreneurial progress. Therefore it was not possible to assess in the audit that the progress of the main objective of the authority to produce active entrepreneurs.

at the regional level through regional officers. Reports containing information on developed and new entrepreneurs are maintained at the regional level. The progress of each officer as per the action plans including targets provided annually to the regional officers, the number of new entrepreneurs and developing entrepreneurs at the end of the year are obtained annually by the Authority. The results of all development programs are obtained at the end of the year. The information on the number of entrepreneurs created in the year is maintained by the head office of the Authority.

evaluation criteria and conduct evaluations by keeping proper records regarding entrepreneurial progress.

4.2 Action Plan

Audit Observation	Comments of the Management	Recommendation
<p>The progress of the tasks planned to be implemented during the year under review was as follows.</p>	<p>(i) Although it was planned to register at least 1000 suppliers on the Made in Sri Lanka Trade Portal according to the 2023 Action Plan, only 216 suppliers were registered during the year under review.</p>	<p>Agreed. Although the Made in Sri Lanka trade portal was launched on 11 December 2021, the IT Division, which was established on 16 October 2023, conducted a system analysis and identified deficiencies. The above deficiencies have now been corrected and the IT Division is once again conducting a quality review of the trading portal.</p>
<p>(ii) Although it was planned to register at least 750,000 entrepreneurs under the project to</p>	<p>Agreed. Due to technical errors in the data system, it was not possible to enter a sufficient amount of information. Those issues have now been resolved, but since the Ministry of Industry is planning to</p>	<p>Plans should be made considering practical circumstances and actions should be done to accomplish the planned tasks.</p>

establish a database for micro, small and medium-sized entrepreneurs, only 260,000 entrepreneurs were registered during the year under review.

develop a national industry database, the information collected by us was also sent to the Ministry of Industry to be integrated with that database.

done to accomplish the planned tasks.

- (iii) The progress of the SME Connect Online Platform project in 2023 was only 20 percent of the expected level.
- After hiring IT staff in October 2023, they analyzed the SME Connect platform, identified issues, and made further necessary changes and improvements. Due to these reasons, the achievement of the annual target was limited, but in collaboration with Deloitte and ADB, it is currently signing MoUs to engage various stakeholders for the SME Connect platform
- Plans should be made considering practical circumstances and actions should be done to accomplish the planned tasks.

4.3 Effectiveness of Management Information System

Audit Observation	Comments of the Management	Recommendation
The Authority had purchased a Micro, Small and Medium Enterprises (MSME) Database in 2021 at a cost of Rs.9,600,000, but due to errors in the system, it had not been put into use as of the date of the audit.	Although the Made in Sri Lanka trade portal was launched on 11 December 2021, the IT Division, which was established on 16 October 2023, conducted a system analysis and identified deficiencies. The deficiencies have now been corrected and the IT Division is conducting another quality review of the trading portal.	Action should be taken to implement the data system promptly and achieve the desired objectives.

4.4 Audit Committee

Audit Observation	Comments of the Management	Recommendation
As per paragraph 4.2 (h) of the Guidelines for Good Governance of Public Enterprises introduced by the Public Enterprises Circular No. PED 01/2021 dated 16 November 2021, Audit Committees are required to meet at least once every 03 months, but only 02 Audit Committee meetings had been held for the year under review.	Agreed. The Chairman resigned in March 2023, and the new Chairman/Director General took office in April, but since the new Board of Directors was appointed on 18-08-2023, only 2 Audit Committee meetings had to be held under the new Board of Directors.	Action should be taken to establish audit and management committees as per the circular.