National Enterprise Development Authority- 2017

The audit of financial statements of the National Enterprise Development Authority for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 the National enterprise Development Authority Act , No.17 of 2006 . The report on the transactions related to the Authority has been tabled in Parliament on 24 July 2020 in three languages due to delay in financial statements. 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 the Financial Statements

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka 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 of 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 Auditing 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 judgment, including the assessment of the risks of material misstatement 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 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.

1.4 Basis for Adverse Opinion

If adjustments had been made for the facts in the Paragraph 2.2 in this report, most of the elements in the accompanying financial statements could have had a quantitative impact on the fundamentals.

2 . Financial Statements

2.1 Adverse Opinion

In my opinion, due to the importance of the matters described in paragraph 2.2 of this report, a true and fair view is not reflected of the financial position of National Enterprise Development Authority as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Non Compliance to Sri Lanka Accounting Standards

(a) LKAS 01- Presentation of Financial Statements

According to the standard, the statement of changes in equity should be presented showing each component of the equity required to identify the effect of retrospective restatement recognized in accordance with LKAS 08. However, only the net effect of the adjustments made relating to the previous years had been adjusted in the statement of changes in equity presented as at 31 December of the year under review.

(b) LKAS 16 - Property Plant and Equipment

(i) 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 for 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, computer software and computers and computer accessories currently in use with a written down value of Rs. 10,097,481 as at 31 December 2017 had not been reviewed.

(ii) The carrying value of 01 motor vehicle, 24 office equipment and 49 computers and accessories which were fully depreciated and still in use had not been disclosed in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) (i) An Incubation and Technology Transfer Centre had been constructed at Makandura Industrial Estate during the year under review incurring Rs.46,432,687 out of the allocation of Rs. 46,450,000 given to the Authority by then Ministry of Industries and Commerce. The center had been registered as a limited liability company and the Authority had owned a 60 percent of the share capital of the Company. Although, the amount of Rs.46,432,687 out of the above allocation incurred for construction of the center had been shown in the financial statements of the year under review as an investment made on the above company by the Authority, a number of shares equivalent to the said value had not been issued to the Authority by the Company. Accordingly, investments had been overstated in the financial statements by the same.

(ii) Although the Authority should prepare financial statements amalgamating the information of the aforesaid subsidiary company, the Authority had not prepared consolidated financial statements for the year under review as the above company had not prepared financial statements for the year under review.

(b) As the advances amounting to Rs. 19,633,940 settled relating to previous years had been adjusted to the accumulated surplus instead of adjusting to grants for programs account, the accumulated surplus had been understated and the balance of grants for programs account had been overstated in the financial statements by the same amount.

(c) Insurance expenses for the year under review had been overstated by Rs.28,704 and prepaid insurance had been understand by the same in the financial statements,
as the amount of insurance charges paid in advance during the year under review amounting to Rs. 92,620 had been accounted as Rs 63,916 .

(d) Deprecation amount of the year under review had been understated by Rs. 154, 219 in the financial statements, as the deprecation of computers and accessories for the year under review amounting to Rs. 445, 042 had been accounted as Rs 290,823.

(e) Expenditure of Rs. 1,280,282 and Rs. 56,250 incurred during the year 2014 and the year 2016 respectively for maintenance and repairs of the office premises of the Authority carried out in a rented building had been capitalized as machinery without accounting as maintenance costs and Rs 590,892 had been made as provision for depreciation . Therefore, the carrying value of fixed assets at the end of the year had been overstated by Rs. 745,640.

(f) The following observations are made in connection with the cash flow statement.

(i) The following differences were observed between the cash flow statement submitted by the Authority along with the financial statements and the cash flow statement prepared by the Audit.

Description	According to the cash flow statement submitted by the institution along with the financial statements	According to the cash flow statement prepared by the audit	Deference
	Rs.	Rs.	Rs.
Operating Activities	28,288,562	(112,503,769)	(140,792,331)
Investment Activities	(47,615,766)	(29,228,098)	18,387,668
Financial Activities	3,136,805	125,541,469	122,404,664

(ii) Adjustments for the year amounting to Rs. 19,633,940 had not been adjusted to the operational surplus.

(iii) Contingent liabilities included in other income amounting to Rs. 28,045,019 had not been adjusted to the operational surplus.

(iv) The financial grants received for the programs had been shown under working capital changes instead of being shown under financial activities.

(v) Although reduction of liabilities for contracts was Rs. 4,326,007 , it had been recorded as Rs. 15,921,026 in the cash flow statement.

(vi) Although the difference between the investments made in B Express Ltd during the year under review and the previous year were Rs. 28,045,019, it had been shown in the cash flow statement as Rs.46,432,687.

(vii) Although utilization of grants was Rs. 37,631,641 out of total grants received during the year under review amounting to Rs. 163,173,110 , only Rs. 3,136,805 had been shown as government grants received under the financial activities of the cash flow statement . .

2.2.3 Unreconciled Control Accounts

The bank reconciliation statements prepared for the end of each month of the year under review had not been tallied with the balance in the cash book.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Authority for the year ended 31 December 2017 was a surplus of Rs. 27,372,346 against the surplus of Rs.18,004,593 for the previous year. Therefore the financial result of the year under review had increased by Rs. 9,367,753 compared to the previous year. Increase of the value written off to the income from the grant received for a project under the Ministry of Industries by Rs, 9,657,351 had mainly affected to the increase of the above surplus.

3.2 Presentation of Financial Statements

According to the Section 6.5.1 of the Public Enterprises Circular PED/12 dated 02 June 2003, financial statements and the draft Annual Report of the Authority should be submitted to the Auditor General within 60 days after the close of the accounting year. However, the financial statements for the year 2017 had been presented to the audit on 21 December 2020.

3.3 Failure to implement the recommendations of the Auditor General's Report of previous year

The recommendations made by me regarding the financial statements of the previous year had not been implemented.