

National Enterprise Development Authority - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Enterprise Development Authority for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 21 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 2021, 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

	Non-Compliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
(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.380,000 amounting to the previous year's error correction value had been deducted under adjustments in the cash flow statement.	Agreed. Action will be taken to correct the final accounts for the year 2022.	Action should be taken in accordance with the Sri Lanka Accounting Standards.
(b)	According to paragraph 42 of Sri Lanka Accounting Standard 08, prior period errors should be adjusted retrospectively in the financial statements of the year under review, but Rs.568,373 paid for the previous year was shown under expenses in the financial statements of the year under review.	Agreed. Action will be taken to correct the final accounts for the year 2022.	Action should be taken in accordance with the Sri Lanka Accounting Standards.

(c)	The authority spent Rs.9,600,000 in the year under review to purchase a data base for Micro, Small and Medium Enterprises (MSME - Data Base), and it was accounted under expenses instead of under intangible assets according to Sri Lanka Accounting Standard 38.	Not classified as an intangible asset due to non-commercial use during the financial year. Current management has identified deficiencies that have hindered commercial use. Accordingly, the supplier has been requested to resolve the errors without charging any additional charges and the rectification is currently being carried out.	Action should be taken in accordance with the Sri Lanka Accounting Standards.
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1.6. Accounts Receivable and Payable

1.6.1 Accounts receivable

Audit Observation	Comments of the management	Recommendation
Action had not been taken to recover the receivable amount of Rs.170,712 from an institution.	This institution has been restructured in the year 2023 and necessary measures have been taken to recover the receivable balance.	Actions should be taken to recover the receivable balance.

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

Reference to Laws, Rules and Regulations etc.	Non compliance	Comments of the management	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka 371(5)	Although the advance should have been settled by 31 December of the year in which it was given, action had not been taken to settle the advance given from 2017 to 2021, which was a sum of Rs.477,410.	Necessary arrangements have been made for the remaining advance settlements.	Actions should be taken in terms of Financial Regulations.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.8,687,298 and the corresponding profit in the preceding year amounted Rs.2,182,904. Therefore an improvement amounting to Rs.6,504,394 of the financial result was observed. The reason for the improvement is the increase in capital grants of Rs.8,849,129 and recurrent grants of Rs.2,836,956, even though program expenditure and other program expenditure increase by Rs.4,568,523.

3. Accountability and Good governance
3.1 Presentation of Financial Statements

Audit Observation	Comments of the management	Recommendation
According to Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the financial statements and draft annual report must be submitted to the Auditor General within 60 days after the end of the accounting year, but the financial statements related to the years 2022 and 2023 have 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.