

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the National Enterprise Development Authority (“Authority”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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. 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 2022, 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 Auditor's 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 skepticism 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 had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Audit Observations on the preparation of Financial Statements**

### **1.5.1 Internal Control over the preparation of financial statements.**

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### **1.5.2 Non-Compliance with Sri Lanka Accounting Standards**

<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
The accounting policy relating to intangible assets had not been disclosed in the financial statements. A total amount of Rs.9,600,000, comprising Rs.8,640,000 in the previous year and Rs.960,000 in the year under review, spent for the data system of the “Made in Sri Lanka Trade Portal” had been accounted for as an expense	Since the trade portal had not been actively used by the year 2023, the related costs were recorded as program expenses. It will be recognized as an intangible asset once the trade portal becomes operational by the end of 2024.	Financial statements should be prepared in accordance with Sri Lanka Accounting Standards.

instead of being shown under intangible assets in accordance with Sri Lanka Accounting Standard No. 38.

### 1.5.3 Accounting Deficiencies

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Recurrent government grants amounting to Rs.2,690,000 received during the year under review had been accounted for as capital grants.	Necessary corrections will be made in the financial statements for the year 2023.	Government grants should be accounted for correctly.
(b) Due to the government grant receipts of Rs.17,490,000 being shown as Rs.206,400 in the cash flow statement, the cash flow generated from financing activities was understated by Rs.17,283,600.	Since only the amount received for fixed assets has been shown from the total amount received for capital expenditures, there is no impact on the balance of the cash flow statement. But I agree to correct it in the next accounting year, as all receipts should be disclosed in the cash flow statement.	The receipt of government grants should be accurately presented in the cash flow statement.

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

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) The Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulations 103 and 104	No action was taken in accordance with the Financial Regulations regarding a laptop computer valued at Rs.99,890 and 02 tablet computers valued at Rs.61,900 that went missing during the	Investigations have been conducted regarding this matter, and it has been proposed to refer it to the Board of Directors for a final decision.	Actions should be taken in terms of Financial Regulations.

period from 2015 to 2019.

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| (ii) Financial Regulations 119            | The engine of the cab bearing registration number PD-6379 was damaged in 2020 while it was being driven by the Chairman. According to the report of the inspection conducted in accordance with the financial regulations, it was recommended that the amount of Rs.498,110 spent for the repair should be recovered from the chairman. However, the Authority had not taken steps to recover the amount even as at December 31 of the year under review. | The Legal Division of the Ministry of Industry has reported this matter to the Attorney General's Department, and the Attorney General's Department has also inquired about this matter from our institution.   | Action should be taken in accordance with the Financial Regulations, and necessary steps should be taken to recover the loss from the responsible parties. |
| (iii) Financial Regulations 371(2)(b)     | Advances amounting to Rs.2,584,085 granted on 174 occasions during the year under review had not been settled as at 28 February 2025, although the relevant tasks had been completed. Furthermore, advances totaling Rs.1,417,907, amounting to during the years 2017, 2018, 2019, and 2021 amounting to Rs.326,250, Rs.476,010, Rs.402,072, and Rs.213,575 respectively, had not been settled as at 28 February 2025.                                    | The advance balance of Rs.4,327,165 relating to the year 2022 had been reduced to Rs.1,297,150 as at 31 October 2024. The relevant officers have been informed regarding the advance payments for the years 2017, 2018, 2019, and 2021, and the recoveries are currently in progress. | Action should be taken to settle advances in accordance with the Financial Regulations.  |
| (iv) Financial Regulations 756(6) amended | The Board of survey reports for the years 2022 and 2023 had not   | It is accepted that the appointment of the Committee of   | In accordance with the circular,   |

by Public been submitted to the Board of Survey in Board of  
Finance Circular Auditor General as at 20 relation to the year surveys of  
No. 01/2020 June 2025. 2022 has been should be  
dated 28 August delayed. The completed and  
2020 survey report reports should  
related be submitted to  
to the year 2022 the audit.  
was  
given by the  
Committee of  
Board  
of Survey on 02  
August 2024. 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.

## **2. Financial Review**

### **2.1 Financial Result**

The operating result of the year under review amounted to a surplus of Rs.3,740,582 and the corresponding surplus in the preceding year amounted to Rs.8,687,298. Therefore, a deterioration amounting to Rs.4,946,716 of the financial result was observed. The deterioration was mainly due to a decrease of Rs.17,504,312 in capital grant receipts during the year.

## **3. Operational Review**

### **3.1 Management Inefficiencies**

	<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	The ISO certificate had not been obtained even by 31 December 2024, although a total of Rs.232,642 had been spent for this purpose Rs.71,762 in 2016, Rs.125,000 in 2017, and Rs.35,880 in 2018 to obtain the ISO certificate for the Authority.	Due to the relocation of the institution to several places during the years 2016, 2017, and 2018, a considerable amount of money had to be spent to re-establish the environment required for obtaining the ISO certification. Although the Authority was provided	Prompt action should be taken to obtained ISO certificate.

with a permanent location in the middle of the year 2023, further action is required to systematically carry out the activities necessary to obtain a certification such as ISO. At present, no provisions have been allocated for obtaining the ISO certification, and the necessary activities for obtaining ISO can be commenced after the completion of the aforementioned tasks of the Authority.

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| <p>(b) According to the action plan for the year 2023, it had been planned to introduce at least 25 suppliers through franchise shops. However, not a single franchise shop had been established during the year 2023. Furthermore, under the “Made in Sri Lanka” trade portal, it had been planned to register at least 1,000 suppliers and, to register a minimum of 750,000 entrepreneurs under the project for establishing a data system for micro, small, and medium sides enterprises. However, as at 31 December 2023, only 216 suppliers and 260,000 entrepreneurs had been registered.</p> | <p>The inability to establish franchise shops was due to the lack of sufficient funds. Discussions have been held with Epic Lanka and private sector entities such as Daraz, Dialog, and the Mother Sri Lanka Foundation to address practical issues, such as the storage of goods in the portal, and appropriate solutions have been implemented.</p> | <p>Action should be taken to implement the planned activities.</p> |
| <p>(c) According to Cabinet Paper No. NP/IND/CM/16/02 dated 11 April 2016, an Incubator and Technology Transfer Centre named B Express Ltd was established as a limited company in 2017 at the Makandura Industrial Park. It</p>   |  |  |

had been registered under the Companies Act as a limited company, with 60 percent of the shares owned by the Authority. The following observations are made.

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| (i)   | Although the affiliate company of the Authority had not prepared and submitted its financial statements for audit from the beginning of the year 2017 up to the year 2023, the management of the Authority had not paid attention to this matter.   | The Authority's Accountant has prepared the final accounts for the years 2022 and 2023 up to March. Since a Board of Directors has not yet been appointed, the accounts are scheduled to be submitted for audit once the Board is appointed.  | Financial statements should be prepared and submitted for audit on the due date. |
| (ii)  | According to the letter No. MIC/SME/13ITTC-01 dated 06 August 2016 issued by the Ministry of Industry and Commerce, the operational expenses of the company should not have been charged to the Consolidated Fund. However, during the year under review, a sum of Rs.500,000 from government funds had been utilized to meet the company's operational expenses. | Since it was initially implemented as a model project, it was not possible to generate significant income. The project was subsequently closed several times due to the Covid-19 pandemic, which prevented it from reaching its objectives. For this reason, the Board of Directors of the Authority allocated a sum of Rs.500,000 for operational expenses to restart and implement the project. | Action should be taken in accordance with the agreed conditions.                 |
| (iii) | Although the company had 30 machines valued at Rs.21,189,016 as per the Company's assets register, an annual verification of assets had not been carried out in accordance with paragraph 6.7 of the Operations Manual issued under Public Enterprises Circular No. PED 01/2021 dated 16 November 2021. Of these, 09 machines had remained inactive for           | Although the assets had not been verified and classified in a standard manner, an assets register had been maintained. All these machines had been used for their intended purposes prior to the onset of the COVID-19 pandemic. The Wayamba University had even conducted research using this equipment. Many machines had been out of   | Action should be taken to ensure the effective utilization of the machines.      |



over 02 years as they had been purchased without considering the actual needs of the entrepreneurs, while 04 machines had remained idle due to the absence of requests from entrepreneurs. The capacity of the machines currently in use had also been underutilized.

service due to the COVID-19 pandemic. Currently, work is being carried out to restore these machines and to re-advertise and promote their use.

- (iv) A private institution had been selected for the management and operational activities of the center from April 2023, based on a decision of the Board of Directors. However, information relating to the selection of that institution had not been submitted to the audit.

At the discussion held on 28, October 2022, regarding the future plans and direction of the center, it was decided to appoint a full-time manager and a technical officer to oversee the activities of the center. The decision was reviewed at the Audit and Management Committee meeting of NEDA held on 26, August 2022, and a further meeting, chaired by the Secretary, was held at the Ministry on 24, March 2023, for additional evaluation. At this meeting, the TRACE Center was identified as a suitable institution for assuming management responsibilities. That institution had been established as a non-profit organization, with initial capital provided by the government and with the support of the Urban Development Authority. TRACE was selected based on its ability to generate the highest foreign exchange earnings per square feet and to manage the incubation centers at no cost. All information is available.

Action should be taken to achieve the intended objectives and to provide the information required for the audit.

- (d) As per Sections 13(b) 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.
- (i) Stimulate and encourage the establishment and operation outside Sri Lanka of enterprises designed with a view to internationalize domestic enterprises capable of penetrating foreign markets for the fulfillment of the objectives of this Act. Although specific programmes have not been implemented for this purpose, entrepreneurs still have the opportunity to establish foreign partnerships through the programmes currently in operation. It is expected that, in the future, the necessary facilities will be provided to create additional opportunities through the merging of Chambers of Commerce. Necessary actions should be taken to achieve the objectives of the Act.
- (ii) Establish a Technology Development Fund to promote research and development in connection with product development, technological advancement and commercialization of patents. Although there is no specific technology fund, the necessary facilities for technical development activities are provided through other development programmes. It is currently difficult to obtain the SEED money required to establish a technology fund. The Authority expects to utilize the income generated from future income-generating programmes for this fund, with the necessary approvals. Necessary actions should be taken to achieve the objectives of the Act.
- (e) A standard classification method had not been followed for the fixed assets in use by each division and The assets of the Authority are numbered using QR codes and its enhancement is currently underway. Fixed assets should be properly classified and documented.

the physical amount of the assets mentioned in the fixed asset register had not been compared with the fixed asset ledger. The physical existence and security of the assets could not be confirmed due to non-adherence to the prescribed internal controls regarding the assets.