

National Defence Fund - 2015

The audit of financial statements of the National Defence Fund for the year ended 31 December 2015 comprising the balance sheet as at 31 December 2015 and the income and expenditure account, 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 12(2) of the National Defence Fund Act, No. 09 of 1985.

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 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 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 judgement, 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 Fund'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 Fund'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.

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 Defence Fund as at 31 December 2015 and its financial performance and cash

flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements.

2.2.1 Sri Lanka Public Sector Accounting Standard-01

A statement on the responsibility of preparation and presentation of financial statements had not been included in the financial statements.

2.3 Non-compliances with Laws, Rules, Regulations, and Management Decisions

A Register of Fixed Assets had not been prepared for the fixed assets valued at Rs. 17,037,875 in terms of Treasury Circular, No. 842, dated 19 December 1978, and Financial Regulation 502 (2).

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of Fund for the year under review had been a surplus of Rs. 48,440,571 as compared with the corresponding surplus of Rs. 66,075,563 for the preceding year, thus indicating a deterioration in the financial results by Rs. 17,634,992 for the year under review as compared with the preceding year. Decrease in the interest income on investments by Rs. 15,120,606 and the increase in the welfare expenditure by Rs. 2,527,015 had mainly attributed to this deterioration.

An analysis of the financial results of the year under review and 04 preceding years revealed that the surplus of the year 2011 amounting to Rs. 86,634,147 had deteriorated to Rs. 57,510,514 in the year 2012. Even though it had improved up to Rs. 80,688,937 by the year 2013, the surplus had gradually decreased to Rs. 66,075,563 and Rs. 48,440,571 in the year 2014 and the year under review respectively.

4. Operating Review

4.1 Performance

In terms of Section 09 of the National Defence Fund Act, No. 09 of 1985, it was the function of the Board of Control to utilize the money of the Fund under the directions of the President in most reasonable manner as considered by the Board of Control and to the activities to promote and assure the National defence including payment of any benefits to the families of the Police Forces or Armed Forces or any members who were wounded or died while carrying out their duties. The following matters were observed in the examination carried out in the year under review on the achievement of the said objectives.

- (a.) It was observed according to the following data that the utilization of income earned by the Fund annually on the relevant objective, was at a weaker level.

Year	Total Income Earned	Welfare Expenditure	Percentage of Expenditure Incurred on Welfare Expenditure from Income Earned
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	Rs.	Rs.	%
2015	54,842,601	6,214,506	11.33
2014	69,967,787	3,698,843	5.29
2013	84,776,544	3,892,332	4.59
2012	64,988,177	7,273,184	11.19
2011	49,082,045	32,250	0.06

- (b.) According to the information made available to audit, number of members belonging to the Tri Forces who died and disappeared while in operation were 25,273 and the number of disabled war heroes were 18,942. However, only awarding of the savings deposits amounting to Rs. 5,750,000 had been carried out during the year under review for 230 students who got through the year 5 Scholarship Examination, belonging to those families. Accordingly, relief had been provided only for a very limited number of the family members of the deceased, disabled and disappeared officers. The attention of the Fund had not been paid on other alternative actions to provide them with relief by setting up a formal concessionary scheme for the all members.

4.2 Management Activities

The following observations are made.

- (a.) Action had not been taken even up to 18 August 2016 to recover the rentals totalling Rs. 1,110,000 relating to the period from December 2012 to the end of the year 2015 for 3 houses belonging to the Fund rented out for the utilization of the Army. Furthermore, substantial evidence to ensure that a lease agreement had been entered into with the Army in this connection, had not been made available to audit.
- (b.) The gem-embedded figurine of a camel housed in a pyramid shaped glass, received by the National Defence Fund in the year 1987 as a donation which lies at the Presidential Secretariat at present, had been valued to be Rs. 2,890,415 by a Board of Survey comprising members of the National Gem and Jewellery Authority in the year under review. It was shown in the valuation report that the figurine the net weight of which the gemstones was 1417.9 Carats, contained 11 types of gemstones such as ruby, emerald, chrysoberyl, star sapphire and corundum. However, it was further observed that the said valuation had been reached on the hypothesis of the gemstones being natural rather than specifically evaluating the nature of the gemstones due to glass housing.
- (c.) The audit had been informed by the Secretary to the Fund that the meetings of the Board of Control could not be held due to difficulty in summoning the members. It

was observed that this situation had directly affected the operation and making important decisions of the Fund.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Public Finance Circular, No. PF/P.E 21, dated 24 May 2002, the financial statements should be presented to the Auditor General within 60 days after the close of the year of accounts. However, the financial statements had been presented to audit after a delay of 04 months on 29 June 2016.

5.2 Budgetary Control

Even though any expenditure should not be incurred in the relevant financial year without an approved budget in terms of Section 4.1(c) of the Public Finance Circular, No. PF/423, dated 22 December 2006, the Fund had spent a sum of Rs. 6,237,606 during the year under review.

5.3 Annual Action Plan

An Annual Action Plan had not been prepared for the year under review including the activities in a manner to facilitate the achievement of the targets mentioned in the Act, as per Paragraph 04 of the Public Finance Circular No.01/2014 of 17 February 2014.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Secretary to the Ministry.