

National Defence Fund - 2016

The audit of financial statements of the National Defence Fund for the year ended 31 December 2016 comprising the balance sheet as at 31 December 2016 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. My report on the administrative activities of the Fund mentioned in the section 12(4) of the Act of the Fund included under the following paragraphs. The statement of income and expenditure shown as annex 01 and the statement of investment of monies shown as annex 02.

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. 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 Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Defence Fund as at 31 December 2016 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 Standards

The following observations are made.

(a) **Sri Lanka Public Sector Accounting Standard-01**

Notes to amounts shown in the financial statements had not been presented in detailed manner.

(b) **Sri Lanka Public Sector Accounting Standard-07**

Lands and buildings of the Fund had been revalued at Rs 11,030,000 and Rs.4,520,000 respectively in 2008 and respective assets had been shown at revalued amounts continuously in the financial statements up to 31 December 2016.

2.2.2 Unexplained Differences

The following observations are made.

(a) Eventhough the value of investments had been shown at Rs. 918,384,284 in the balance sheet as at 31 December 2016, corresponding value of investments amounted to Rs. 918,114,310 as per the deposit renewal reports of the National Savings Bank. Thus a difference of Rs. 269,974 had been observed.

(b) A detailed schedule of interest income on investments amounting to Rs.65,662,079 for the year under review had not been furnished for audit. However, according to the certificates of fixed deposits, the interest income on investment amounted to Rs. 62,665,692. Thus, a difference of Rs. 2,996,387 was observed.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review was a surplus of Rs. 66,662,514 and the corresponding surplus of the preceding year amounted to Rs. 48,440,571, thus indicating an improvement in the financial results by Rs. 18,221,943 during the year under review. The interest income on investments had been increased by Rs. 11,491,428 and the welfare expense had been decreased by Rs. 6,186,354 thus it mainly attributed for the increase of the financial result.

The analysis on financial results for the year under review with 04 preceding years had revealed that the surplus amounting to Rs. 57,510,513 in 2012 had been increased upto Rs. 80,680,937 in 2013. However, this improvement had gradually deteriorated in 2014 and 2015 up to Rs.48,440,571 at the end of the year 2015. The financial result had increased up to Rs. 66,662,514 during the year under review. However, after adjusting remunerations and depreciations for non- current assets to the financial result, the contribution of the Fund amounted to Rs. 57,714,991 in 2012 and it was improved upto Rs. 80,884,212 in 2013. However, this contribution had been gradually deteriorated upto 2014 and 2015. The contribution amounted to Rs. 48,625,395 in 2015 and it was improved up to Rs. 66,836,447 during the year under review.

4. Operating Review

4.1 Performance

In terms of Section 09 of the National Defence Fund Act, No. 09 of 1985, Governing Board of the Fund is entrusted to promote and certify the national security in the manner of consideration of the Governing Board and the directions of the H.E President including providing of financial assistance to the member of police force and armed force who injured or deceased on duty or family member of such members. According to the information made available to audit, 25,273 members of all 03 Forces died or disappeared in operation and 18,942 members were disabled. However, the activities of awarding of savings deposits for the students who passed Grade 5 Scholarship Examination and distributing of the proceeds of interest on the savings deposit to a war hero only had been carried out by the Fund. Further, the scheme to provided financial support for the students who passed the Grade 5 Scholarship Examination had not been continued during the year under review.

4.2 Operating Activities

The following observations are made.

- (a) Rental income amounting Rs. 1,921,500 had remained outstanding at the end of the year under review on 03 houses owned to the Fund which allowed to use by the Sri Lank Army on rent basis. Out of that, a sum of Rs. 721,500 had remained outstanding over 02 years and fruitful action had not been taken to recover the dues. Eventhough this matter was highlighted in the audit report previously issued, the action had not been taken to enter into rent agreements with the Sri Lanka Army even up to end of the year under review.
- (b) The gem-embedded figurine of a camel which housed in a pyramid shaped glass received by the National Defence Fund in 1987, as a donation and lies at the Presidential Secretariat had been valued at Rs. 2,890,415 by a Board of Survey comprising members of the National Gem and Jewellery Authority assuming that embedded gemstones as natural, eventhough it was unable to assess the value of the gemstones being natural certainly. According to the explanations of the Secretary of the Fund, such a valuation report had to be issued due to difficulties faced in selection of procedures to adopt to assess the value of the camel accurately.

- (c) Meetings of the Governing Board of the Fund had not been held even at the end of the year under review since its inception. Eventhough an approval of the Cabinet of Ministers had been received on 16 August 2016 to amend the Section 3(2) of the National Defence Fund Act, No. 9 of 1985 which revised by the Act, No. 10 of 1991 and change the composition of the Board by considering the difficulties to summon the members of the Board. However, the action taken thereon had not been completed even at the end of the year under review.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

The following observations are made.

- (a) In terms of Public Finance Circular No. PF 423 of 22 December 2006, the financial statements required to be furnished to the Auditor General within 60 days after the close of the financial year. However, financial statements for the year ended 31 December 2016 had been furnished for audit only on 09 June 2017.
- (b) According to the Section 13 of the National Defence Fund Act, No 10 of 1991 (Revised), eventhough the financial statements of the Fund required to be tabled in the Parliament by the Secretary to the Ministry of Finance, the financial statements for the year ended 31 December 2016 had been furnished to the Auditor General with the signatures of the Secretary to the Ministry of Defence and other two officers of the Fund.

5.2 Budgetary Control

In terms of Section 4.1(c) of the Public Finance Circular, No. PF/423 of 22 December 2006, any of expenditure should not be incurred in the relevant financial year without an approved budget. However, the Budget of the Fund for the year under review had not been prepared and approved.

5.3 Annual Action Plan

As per paragraph 04 of the Public Finance Circular No. 01/2014 of 17 February 2014, an Annual Action Plan had not been prepared for the year under review including the activities as enable to achieve the targets mentioned in the Fund.

5.4 Internal Audit

According to the Internal Audit Plan of the Ministry of Defence, the activities of all the Funds under the purview of the Ministry were planned to carry out during the year under review. However, the copies of the internal audit reports issued thereon had not been presented to the Auditor General, as required by the Financial Regulation 134 (3).

5.5 Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Management of the Fund from time to time. Special attention is needed in respect of the following systems and controls.

<u>Systems and controls</u>	<u>Observations</u>
(a) Accounting	Value of the investment not identified accurately, schedules not prepared for interest income on investment.
(b) Operational Management	Rent agreements not entered, Revaluation of assets not made, the meeting of Governing Board not held.
(c) Operational Control	Action had not been taken to achieve the objectives stipulated in the Act.

Annex 01

Statement of income and expenditure of the National Defence Fund for the year ended 31 December 2016

	<u>2016</u>	<u>2015</u>
	Rs.	Rs.
<u>Income</u>		
Donations	2,520	5,950
Interest on Investments	65,662,079	54,170,651
Rent Income	1,200,000	666,000
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	<u>66,864,599</u>	<u>54,842,601</u>
<u>Expenditure</u>		
Allowances of staff	17,400	20,400
Welfare Expenditure	28,152	6,214,506
Depreciation on fixed assets	156,533	164,424
Bank Charges	-	2,700
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	<u>202,085</u>	<u>6,402,030</u>
Income over expenditure	<u>66,662,514</u>	<u>48,440,571</u>

Annex 02

Statement of the investment of monies of the National Defence Fund in the year 2016

Account Number	Investing Institution	Type of Investments	Date of Investment	Period	Balance as at 31 December 2016
				year	Rs.
2 0065 11 75912	National Saving Bank	Fixed Deposit	30 June 2016	1	12,327,034
2 0065 11 75939	National Saving Bank	Fixed Deposit	30 June 2016	1	15,861,117
2 0065 11 75823	National Saving Bank	Fixed Deposit	07 July 2016	1	139,948,273
2 0065 11 78202	National Saving Bank	Fixed Deposit	25 September 2016	1	246,329
2 0065 11 78148	National Saving Bank	Fixed Deposit	25 September 2016	1	122,728,616
2 0065 11 86302	National Saving Bank	Fixed Deposit	22 July 2016	1	1,009,782
2 0065 11 95603	National Saving Bank	Fixed Deposit	09 April 2016	1	12,236,260
2 0065 11 73189	National Saving Bank	Fixed Deposit	24 March 2016	1	84,222,845
2 0065 11 75807	National Saving Bank	Fixed Deposit	27 June 2016	1	104,715,785
2 0065 11 75815	National Saving Bank	Fixed Deposit	27 June 2016	1	119,174,180
2 0065 11 83940	National Saving Bank	Fixed Deposit	29 April 2016	1	60,662,295
2 0001 2248549	National Saving Bank	Fixed Deposit	07 January 2016	1	1,400,000
2 0001 22 29927	National Saving Bank	Fixed Deposit	28 August 2016	1	149,807,802
2 00651025058	National Saving Bank	Fixed Deposit	31 March 2016	1	400,000
LKA36417G140	National Saving Bank	Treasury Bills	15 July 2016	1	93,643,967
					<u>918,384,285</u>