

President's Fund - 2017

The audit of financial statements of the President's Fund for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of financial performance, statement of changes in equity, cash flow statement and significant Accounting policies for the year then ended and a summary of other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 9(2) of the President's Fund Act, No.7 of 1978. My comments and observations which I consider should be published with the Administration Report on the activities of the Fund including the statement on the income and expenditure of the Fund stated under Section 9(4) of the said Act to be presented to the Hon. Minister of Finance in terms of Section 10 of the Fund Act and the statement of investments of cash as Annex 01 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 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 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, the financial statements give a true and fair view of the financial position of the President's Fund as at 31 December 2017 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. Presentation of Financial Statements

The Financial Statements of the President's Fund as at 31 December 2017 submitted to the audit had not been approved by the board of control of the fund.

2.2.2. Sri Lanka public Sector Accounting Standard

Sri Lanka public Sector Accounting Standard 01

- a) According to the accounting policies stated in the financial statements, it had been disclosed that the financial statements had prepared according to the Sri Lanka public Sector Accounting standards. Even though the Financial Statements should to be prepared according to the second paragraph of the standard, it has been observed that the financial statements had been prepared on cash and accrual both basis.
- b) In the changes of equity statement and in the accounting notes of the financial statements for the year under review, the comparative information had not been stated according to paragraph 53 of the standard.
- c) In terms of standard 76 (c) it should be expected to be realized within 12 months of the assets reporting date of such assets to be classified as current assets, but Rs. 1,543.7 million of fixed deposits to be matured before 31 December 2018 had been classified as non-current assets.
- d) In terms of standard 21 (g), the imprest of Rs.6 million of the Indian deputy high commission office which was stated in the statement of Financial position, the detailed accounting notes in regard of the financial performance statement of the fund and a loan balance of Rs.161 million which had been given for the national housing development authority were not disclosed under the notes of financial statements.

2.2.3 Accounting Policies

The relevant policies and basis to identify the income included in the financial performance statement of the fund had not been stated under the notes of financial statements.

2.2.4. Accounting Deficiencies

The following observations had been made.

- a) A sum of Rs.102 million received from the development lotteries board for the Mahapola Scholarship fund in the year under review had been identified as an income and an expense of the presidential fund and due to that reason the values of the income and the expense of the fund had been overstated by that amount.
- b) A sum of Rs.100,000 had received as donation in 2015 to establish a fund to gifts award to people who had conducted researches in order to find and alternate source to replace asbestos had been mentioned as current liabilities in financial statements without including to revenue until the end of the year under review.

2.3 Transaction not supported by adequate authority

The approval of the board of control of the fund for each payment that the fund had done from 01 July 2017 to 31 December 2017 had not been obtained even as at 18 October 2018.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review had resulted in a deficit of Rs.76,972,038 as against the corresponding deficit of Rs.183,809,157 for the preceding year, thus indicating a improvement of Rs.106,837,119 in the financial result in the year under review as compared with the preceding year. Even though the income of the Fund had decreased by a sum of Rs.1,269,395,805 in the year under review, the decreased of the contribution of Mahapola Scholarship awarding fund and increase of treasury grant by sums of Rs.665,229,488 and Rs.772,877,300 respectively had been the main reasons for this improvement.

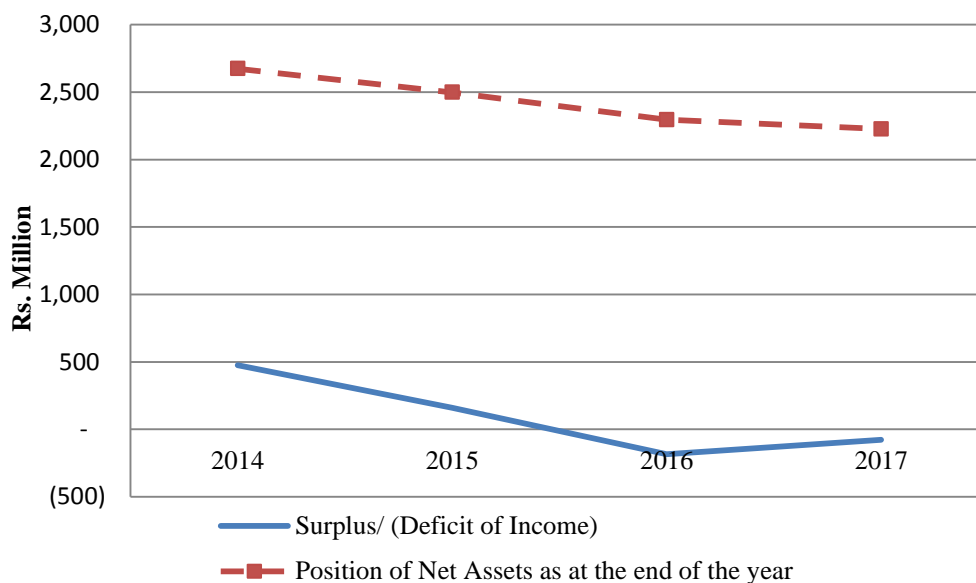
3.2 Analytical Financial Review

The following observations are made.

- (a) The surplus/ (deficit) of the Fund and the position of net assets for the year under review and of three preceding years are given below.

Year	Surplus/ (Deficit) of Income	The Position of Net Assets as at 31 December 2017
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	Rs. Million	Rs. Million
2014	475	2,674
2015	159	2,499
2016	(184)	2,296
2017	(77)	2,227

Surplus/ Deficit of Income and the Position of Net Assets



According to the financial statements presented, a net surplus of Rs.475 million had been obtained by the operating activities of the Fund in the year 2014 and, it had been continuously deteriorated to a net deficit of Rs.184 million by the end of the year 2016. But compared to 2016, the net deficiency in the year 2017 had declined by 58.15 per cent which means by Rs. 107 million. However the asset status of the fund from the year 2014 to year 2016 had continuously eroded from an amount of Rs. 2,674 million to Rs. 2,227 million.

- (b) From the total income of the fund 24.81 per cent equivalent to Rs. 501.71 million had been received from the development lotteries board for the year under review and with comparison to the income of Rs. 1,771,10 million which was received by the development lotteries board in the previous year there has been declined by Rs. 1,269.39 million meaning 71.67 per cent. It was observed during audit that due to reserving an amount of Rs. 1,314 million in the year of 2017 for the payment of arrears income tax due to not paying the income tax payables by the Development lottery board from 2001 to 2009, the value of cash has to be remitted to the president's fund by the Development lottery Board had been decreased. However to overcome the expenses of the fund, an amount of Rs. 772.88 million has been given by the treasury.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) A total sum of Rs.1,536.69 million had been spent by the Fund in the year under review for medical assistance, cultural affairs, religious affairs, welfare activities, educational activities, sports and arts activities and for awarding local and foreign scholarships. The composition of that total expenditure had been 88.12 per cent for the payment of medical assistance, 0.22 per cent for cultural affairs, 0.003 per cent for religious affairs, 0.52 per cent for welfare activities, 0.007 per cent for educational activities, 0.07 per cent for sports and arts activities and 11.06 per cent for local and foreign scholarships respectively.
- (b) An analysis on the different expenses related to the year under review and the previous year are as follows.

Category of expense	Expenses for the year 2017	Expenses for the year 2016	Increase / (decrease) of the expenses	The percentage of the increase or the decrease compared to the year 2016
	(Rs.)	(Rs.)	(Rs.)	
Medical Donations	1,354,130,788	1,288,493,432	65,637,356	5.09
Cultural activities	3,400,000	3,800,000	(400,000)	10.53
Religious activities	50,000	5,012,500	(4,962,500)	99.00
Welfare activities	7,950,000	9,632,000	(1,682,000)	17.46
Educational activities	109,000	2,350,000	(2,241,000)	95.36
Scholarships	170,046,000	125,867,470	44,178,530	35.10
Sports & art works	1,000,000	2,974,500	(1,974,500)	66.38

The expenditure incurred for the medical donations and scholarship awarding compared with the last year had increased by 5.09 per cent and 35.10 per cent respectively while the other expenses had decreased in a range of 10 per cent to 99 per cent comparatively. The growth of the expenses incurred for the scholarship awarding was due to completing the payment for the Advanced level scholarship holders in the year 2018 which is usually paid in 2 premiums, in the year 2017 itself after confirming the necessary information.

- (c) In the year under review an amount of Rs. 1,354.13 million has been spent on paying for medical donations and out of that an amount of Rs. 12.4 million has been spent for 9 individuals selected as people's representatives and an amount of Rs. 1,341.73 million has been spent for all the other parties which are for 8,864 medical needs for the rest of

the people. However, the amount spent on behalf of the medical needs for the other people represented 99 per cent of the total medical donation cost of the fund. In the year under review and also in the previous years, it was highlighted that the average value spent on an ordinary person was comparatively lesser than that spent on a people's representative or a person like that.

- (d) When paying medical funds on behalf of 34 patients for different diseases an amount of Rs. 28.83 million has been spent exceeding the approved limit according to the internal policies of the fund. But it was observed that in terms of the above 3.2 when focusing on the unsatisfactory financial condition of the fund, it is much more appropriate to manage it by introducing specific justifiable definite criteria to be applied when providing medical funds exceeding the limit prescribed.
- (e) An amount of Rs. 1,354.13 million has been spent on heart surgeries, cancer, kidney disease, brain related disease and other treatments on behalf of 8,873 patients in the year under review and in the previous year, an amount of Rs. 1,288.50 million has been spent on 8,395 patients. Accordingly when compared with the previous year, there has been an increase of patients who have received medical aids by 478 which means by a 5.69 per cent and an increase in the medical donation expenses by Rs. 65.63 million which means by 5.09 per cent. The details are as follows.

Disease	Year 2017		Year 2016	
	Number of person	Paid amount (Rs.million)	Number of person	Paid amount (Rs.million)
Heart surgeries	5,035	779.33	5,897	891.89
Cancer diseases	497	84.48	635	81.55
Kidney diseases	1,938	255.41	724	116.59
Brain – related diseases	247	77.32	1,139	198.47
other	1,156	157.59	-	-
	8,873	1,354.13	8,395	1,288.50

- (f) An amount of Rs. 1,543.52 million had been invested and investment of Rs. 1,771.92 million had been withdrawn again during the year under review. According, it had been shown Rs. 228.40 million deterioration of the investment balance of the fund as at the end of the year under review when comparing with previous year and interest income of the fund had been grown by Rs. 7.73 million when comparing with the previous year. The increase of interest income of current year investment had been affected to that.

4.2 Management activities

It was observed during sample audit tests that there had been instances where they have paid medical aids without giving enough attention to the criteria such as financial condition of the patients.

4.3 Personnel Administration

There is no approved staff for the president's fund, 43 officers including an additional secretary, 2 assistant president secretaries, an accountant who were employed in the service of the presidential secretariat by the 31st December 2017, have been employed for service of fund.

5. Accountability and Good Governance

5.1 Budgetary Control

As variances ranging from 15 per cent to 100 per cent were observed in comparing the budgeted income and expenditure with the actual income and expenditure for the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

Statement on the Income and Expenditure of the Fund and on the Investment of Money belonging to the Fund

- (i) According to the financial statements presented to audit, income and expenditure of the Fund for the year ended 31 December 2017 as compared with the preceding year are given below.

Description	For the year ended 31 December	
	2017	2016
	Rs.	Rs.
Income		

Receipts of Contributions	85,175,917	63,010,454
Interest Income	202,289,639	187,773,079
Receipts from Development Lotteries*	501,705,241	1,771,101,046
Receipts from General Treasury **	772,877,300	-
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Total Income	1,562,048,097	2,021,884,579
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Expenditure		

Audit Fees	170,000	170,000
Payment of Medical Assistance	1,354,130,788	1,288,493,432
Cultural Affairs	3,400,000	3,800,000
Religious Affairs	50,000	5,012,500
Welfare Activities	7,950,000	9,632,000
Educational Activities	109,000	2,350,000
Scholarship Scheme	170,046,000	125,867,470
Sports and Arts Activities	1,000,000	2,974,500
Fifty per cent contribution to Mahapola Higher Education Scholarship Trust Fund	102,164,346	767,393,833
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Total Expenditure	1,639,020,134	2,205,693,735
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Deficit of Income	76,972,037	183,809,156
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* Income tax arrears for previous years had to be payable during the year had been affected to the decrease of the receipts of income from the Development Lotteries Board.

** Due to non-receipt of sufficient income to bear the expenses for the year, obtained amount from the General Treasury during the year under review on the approval of cabinet.

(ii) According to the financial statements presented to audit Investment of the Fund as at 31 December 2017, as follows.

Type of Investment	Balance as at 01 January 2017	During the year 2017		Balance as at 31 December 2017
		Investments	Release of Investments	
	Rs.	Rs.	Rs.	Rs.
National Savings Bank-Fixed Deposits	1,470,294,000	-	1,470,074,000	220,000
People's Bank-Fixed Deposits	120,792,341	1,543,520,345	120,792,341	1,543,520,345
Investments of Development Lotteries Board	2,200,000	-	-	2,200,000
Treasury Bonds	338,790,000	-	-	338,790,000
Repurchase of Agreements	181,050,000	-	181,050,000	-
	2,113,126,341	1,543,520,345	1,771,916,341	1,884,730,345