

National Defence Fund – 2018

1.1 Qualified Opinion

The audit of the financial statements of the National Defence Fund for the year ended 31 December 2018 comprising the balance sheet as at 31 December 2018 and the income and expenditure account for the year then ended 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(3) 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. 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 the paragraph 1.5 of this report the accompanying financial statements give a true and fair view of the financial position as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector 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 Public Sector 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 Fund 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 Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Fund 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 Fund.

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 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 Fund'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 Fund'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 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 Fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the Governing Body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of the 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 –maintenance of Registers and Books

Audit Observation	Comment of the Management	Recommendation
Verification of assets could not be carried out in audit, due to a register had not been maintained to record the fixed assets valued at at Rs. 55.63 million shown under 04 categories of the Fund.	A register had not been maintained to record fixed assets even up to now and action had been taken to maintain a register in formal manner from year 2019.	Record the fixed asset and respective register should be maintained in updated manner.

1.5.3 Accounting Deficiency

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
Eventhough a sum of Rs. 232,600 had been shown as depreciation on building and office equipment in the income and expenditure account during the year under review, respective amount had been shown as Rs. 141,914 in the respective schedule. Further, depreciation on building for the year had been over provided by Rs. 226,000, due to calculation error.	Buildings are depreciated on cost and computer assoseries are depreciated on straight line basis and error had been occurred in recording in the ledger.	Action should be taken to reconcile the balances properly and submit.

1.6 Non-compliance with Law, Rules and Regulation and Management Decision

The following observation is made.

Reference to the Law, Rules and Regulation	Non-compliance	Comment of the Management	Recommendation
Public Finance Circular No. 02/2014 of 17 October 2014 and F.R 756	Eventhough reports on board of survey required to be submitted to the Auditor General on or before 17 March 2019 by carrying out a board of survey at the end of the year under review for the Fund, action had not been taken accordingly.	Respective reports will be submitted by carrying out a board of survey form year 2019.	Action should be taken as per the Public Finance Circular No. 02/2014 of 17 October 2014 and FR 756.

1.7 Cash Management

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
(a) It was observed that cash balance of Rs. 01 million from January to June 2018 and balance ranging from Rs.96 million to Rs. 39 million from August to December had been remained in the current account maintained in the Central Bank without investing effective investment by the Fund.	This amount had been transferred to the current account maintained in the Central Bank for the payment of money to beneficiaries of Meth Sewana Houses and respective amount had been remained in the account, due to payment are made as installments.	After Planning on financial requirements and incurring of expenditure, action should be taken accordingly.
(b) Interest on bank fixed deposits withdrawn during the year under review for 48 days and 34 days respectively had not been credited to the Fund by the bank. Follow up action had not been made thereon by the Fund.	Reinvestment had not been made, due to decision had been taken to use the fixed deposits for the payment of installments to the beneficiaries of the Meth Sewana half way constructed housing project and interest was not calculated for the respective period by the Bank.	Invested money should be withdrawn under a proper financial requirement plan.

2. Financial Review

2.1 Financial Result

Operational result of the Fund for the year under review was a deficit of Rs.87,869,226 and the corresponding surplus of the preceding year amounted to Rs. 95,979,932. Thus it indicated that deterioration in the financial result by Rs. 183,849,158. Eventhough increase in the income by Rs. 18,351,161, increase in expenditure on Meth Sewana housing project by Rs. 199,937,335, administrative expenses by Rs. 1,997,075 and expenditure on Weru Sisu Predipa by Rs. 4,000,000 was mainly attributed for the deterioration of the financial result.

3. Operating Review

3.1 Management Inefficiency

The following observations are made.

	Audit Observation	Comment of the Management	Recommendation
(a)	According to the National Defence Fund Act No. 09 of 1985, eventhough it was mentioned, funds are required to be utilized to promote and certify the national security, programmes had not been scheduled and implemented during the year under review thereon.	Such programmes expected to be implemented on the directions of the H.E President and Governing Board, due to sensitivity of the objective to promote and certify the national security.	Action should be taken as per objectives of the National Defence Fund Act No. 09 of 1985.
(b)	According to the paragraph 09 of the National Defence Fund Act No.09 of 1985, eventhough benefits required to be provided to the families of the police officers' who injured or died during their duties, It had not been considered in payment of benefits.	Housing benefits were not given, due to it was observed that adequate benefits had been given on behalf of the police officers by the Weru Sumithuru project. Weru Sisu Predepa scholarships had been given to Children of the police officers. If housing benefits request had been received from Sri Lanka Police, it is expected to be given benefits under the approval of the Governing Board.	Action should be taken as per paragraph 09 of the National Defence Fund Act No. 09 of 1985.

3.2 Delays in Project

The following observation is made.

	Audit Observation	Comment of the Management	Recommendation
	Eventhough it was scheduled to be given benefits for 145 tri forces war heroes under the Meth Sewana housing project as non-refund financial donation of Rs.750,000 by Rs. 250,000 under 03 steps to complete the balance woks of halfway constructed houses of war heroes who died or disabled in their duties in August 2017, It had been amended up to 300 of war heroes	It had been completed during the year 2019 on the approval of the Governing Board with a new project. Benefits had been given by estimating the balance part according to the extent of the construction made in the house by the beneficiaries	By preparing an annual action plan, project should be implemented. Composition should not be changed subsequently, due to selection of number of beneficiaries made after evaluation process.

during the year under review. However, composition of the benefited war heroes approved from the Governing Board had been changed subsequently without approvals. Eventhough first installments had been paid for selected all war heroes, second installments for 07 war heroes and third installments for 44 war heroes had not been paid at the end of the year under review.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
(a) According to the paragraph 11 of the National Audit Act No.19 of 2018, eventhough financial statements required to be furnished to the Auditor General within 60 days after the closing of the financial year, financial statements had been furnished on 15 March 2019.	Financial statements of the National Defence Fund had been submitted to the audit on 28 February 2019 and inform to resubmit with the signature of the Chairman of the Governing Board including members. Therefore, it had been delayed in completing the weakness. Action will be taken to submit the financial statements without delay in future.	Action should be taken as per the paragraph 11 of the National Audit Act No. 19 of 2018.
(b) Eventhough performance report required to be submitted with the annual financial statements as per the paragraph 16.2 of the National Audit Act No.19 of 2018, action had not been taken accordingly by the Fund.	Action will be taken to submit a report on performance in future.	Action should be taken as per the paragraph 16.2 of the National Audit Act No.19 of 2018.

4.2 Annual Action Plan

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
According to the Public Finance Circular No. 01/2014 of 17 February 2014, annual action plan had not been prepared by the Fund comprising with the activities targeted to achieve the objectives mentioned in the Act with the long term vision for the year 2018, organization structure of the Fund, approved cadre and actual cadre and financial requirement plan for annual activities.	Brief action plan was submitted.	Annual action plan should be prepared and submit as per the Public Finance Circular No. 01/2014 of 17 February 2014.

4.3 Budgetary Control

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
According to the paragraph 04.1 (c) of the Public Finance Circular No. PF/423 of 22 December 2006, Annual Budget Estimate had not been prepared by the Fund.	Instructions had been given to prepare a Budget Estimate from year 2019.	Action should be taken as per the Public Finance Circular No. PF/423 of 22 December 2006.

4.4 Sustainable Development Goals

The following observation is made.

Audit observation	Response of the Management	Recommendation
According to the Sri Lanka Sustainable Development Act, No. 19 of 2017 and President Secretary letter No. PS/SP/SB/3/201 of 16 March 2018, indicators had not been identified to measure targets by awareness of the Sustainable Development Act and identifying the targets required to reach the goals by the Fund.	After awareness on the sustainable development goals, it is expected to implement the required activities to achieve the objectives in future.	Action should be taken according to the President Secretary Circular No. PS/SP/SB/3/201 of 16 March 2018.