

## **President's Fund - 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the President's Fund for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in net assets 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. Comments and observations which I consider should be submitted to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the President's Fund as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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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**

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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 Fund'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 intends 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's 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 Responsibility on the Audit of the Financial Statements

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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 the Fund 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 board 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

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

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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. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

Audit Observation	Comments of the Management	Recommendation
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(a) The Fund had not introduced any formal basis or methodology or formal internal controlling system in relation to the payments made under the welfare payments.	A methodology on the welfare payments is not being implemented at present. The special approval of His Excellency the President had been granted for the payments.	A formal internal control system should be introduced.
(b) Occasions of failure to maintain books and registers accurately and in updated manner could be observed in examining the books and registers maintained by the Fund.	The relevant officers in charge of subject have been made aware of this matter.	Books should be maintained properly.

## 1.5.2 Accounting Deficiencies

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 The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) In terms of Section 17 (5) of the Development Lotteries Board Act, unclaimed prizes should be remitted to the Fund subsequent to the lapse of 06 months. However, as per the information submitted by the Development Lotteries Board to the audit, an amount of Rs.24,948,809, the value of the confiscated motor vehicles and the other goods and confiscated cash prizes totalling to Rs.45,308,050 during the period of the 04 years from 2015 to 2018 had not been brought to accounts as recoverable amounts.	In terms of the Section 18 (3) of the Development Lotteries Board Act, The Chairman of the Lotteries Board had informed that the prizes which had not been forwarded to obtain prizes within a period of 06 months, such prizes are used for special promotional lotteries. Therefore, cash prizes had not been brought to accounts.	Action should be taken in compliance with the provisions of the Act.
(b) Even though the interest income of the financial statements in the year under review had been stated as Rs.217,500,880, it was Rs. 223,654,927 as per the computation done at the audit. Therefore, the interest income and receivable interest income had been understated by Rs. 6,154,047. Understatement of interest income amounting to Rs. 5,195,872 and overstatement of interest income amounting to Rs. 68,918 and a unidentified difference of Rs. 1,027,093 had been included in that value.	The amount had been understated since it had not been observed that the interest receivable mentioned in a letter sent by the Bank of Ceylon was erroneous. This would be rectified in the year 2019.	The accurate value should be stated in the financial statements.
(c) Even though an expenditure of Rs.2,000,000 had been incurred in the year under review out of the imprest of Rs.6,000,000 maintained in the Deputy High Commissioner's Office in India, it had not been brought to accounts by identifying it as an expenditure in the year and the imprest balance as at 31 December 2018 had been overstated by Rs. 2,000,000.	Since the expenditure of Rs. 2,000,000 related to the year 2018 had been reimbursed in the year 2019, it is not possible to account it as an expenditure as at 31.12.2018.	All the information related to the year under review had to be included in the financial statements.

### 1.5.3 Transactions without Authority

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The following observations are made.

<b>Details on Transactions without Authority</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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The approval of the Governing Board of the Fund had not been obtained even by 30 September 2019 for each payment made by the Fund from 01 October to 2018 to 31 December 2018.	The approval of His Excellency the President had been obtained for each payment made from 01 October 2018 to 31 December 2018. Action would be taken to obtain the approval at the meeting of the Governing Board of the Fund scheduled to be held on 18 October 2019.	The approval of the Governing Board should be obtained for all the payments.

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

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The following observations are made.

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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Section 3 (2) of the President's Fund Act No. 07 of 1978.	Even though the President should appoint two members for the Governing Board of the Fund, only one member had been appointed even by July 2019.	The representatives appointed to the Governing Board by His Excellency the President are appointed on the discretion of His Excellency the President.	Action should be taken in terms of provisions of the Act.

## 2. Financial Review

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### 2.1 Financial Result

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The operating result of the year under review amounted to a surplus of Rs.254,920,004 and the financial result of the preceding year was a deficit amounted to Rs. 76,972,038. Accordingly, an improvement of Rs. 331,892,042 in the operational result was observed. The major reason for this improvement was the increase in the income in the year under review by Rs. 874,575,421 or 56 per cent when it is compared with that of in the previous year. Nevertheless, the increase in the expenditure of the year under review when it is compared with that of in the previous year was Rs. 542,683,379.

## 2.2 Trend Analysis of Major Income and Expenditure items

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The following observations are made.

- (a) Receipts of the Development Lotteries Board and interest income, which are the major source of income of the Fund had been improved by Rs. 1,685.9 million and Rs. 15.21 million respectively or 336 per cent and 7.5 per cent when compared with that of in the previous year and contributions from the other parties had been reduced by Rs. 53.7 million when compared with the previous year.
- (b) The Fund had incurred a total of Rs. 1,270.72 million for medical assistance, welfare activities, cultural activities, religious activities, educational activities, sports and activities of arts and for awarding local scholarships. The value was 58 per cent when it is considered as a percentage of the total expenditure.
- (c) The expenditure incurred on welfare activities, religious activities and educational activities had been increased by 80 per cent, 220 00 per cent and 143 per cent respectively when compared with the previous year and medical assistance, sports and arts activities and awarding of scholarships had been reduced by 13 per cent, 90 per cent and 63 per cent when compared with the preceding year.
- (d) A sum of Rs. 1,149.02 million had been incurred for 6,086 patients for heart surgeries, cancer diseases, kidney diseases, brain diseases and for other treatments in the year under review and number of patients who had received treatments had reduced by 2,787 or 31 per cent and expenditure on medical assistance had reduced by Rs. 205.11 million when compared with the sum of Rs. 1,354.13 million incurred for 8,873 patients during the preceding year.
- (e) A sum of Rs. 1,745 million had been invested in the year under review and an amount of Rs. 1,543.52 million invested had been taken back. Accordingly, a growth of Rs. 201.48 million in the investment value could be observed in the year under review compared with the preceding year. A growth of Rs. 15.21 million could be observed in the interest income when compared to that of in the preceding year. The increase in the percentage of investment interest in the year under review had also contributed for this increase.

## 3. Operational Review

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### 3.1 Management Inefficiencies

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The following observations are made.

<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
(a) The Fund had established a scholarship scheme for students of low income families who follow the Advanced Level. However, an amount of Rs. 500,000 had been provided from the scholarship scheme to a female artist who was not a student for following a course in the Royal Academy of Drama and Theatre and it had been brought to	Action would be taken to rectify it in the preparation of accounts in the year 2019.	Expenditure should be incurred according to approved methodologies and expenditure should be duly brought to accounts.

accounts as an amount provided under the scholarship scheme. A sum of Rs. 250,000, which was the 50 per cent contribution from that amount had also been obtained from Mahapola Higher Education Scholarship Trust Fund.

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| (b) | Even though it had been included in the accounting policies of the year under review that 50 per cent out of the receipts of the Development Lotteries Board, which is the major income source of the Fund would be paid to the Mahapola Scholarship Fund, there was no legal concurrence related to that.  | Agreed.   | A legitimate basis should be prepared.   |
| (c) | A total of Rs. 18,730,942 had been paid by the Governing Board of the Fund to 38 patients on special approvals exceeding the limits approved for each disease. The amount exceeded was 63 per cent out of the total sum paid to the 38 patients.  | Payments had been made on the special approval of His Excellency the President.   | Action should be taken in compliance with the approved limits.                             |
| (d) | In terms of paragraph 15 of the Sri Lanka Accounting Standards No. 01, adequate information had not been disclosed in the financial statements in relation to the loan balance of Rs. 161,000,000 stated in the statement of financial position of the Fund as receivables from the National Housing Development Authority.   | Information had been disclosed in paragraph 4 (v) of the Financial Statements.  | All the relevant information should be disclosed to the users of the financial statements. |
| (e) | The Fund had incurred a sum of Rs. 1,178.69 million for the payment of medical assistance in the year under review and Rs. 7 million out of the amount had been paid on special approvals for 16 persons who were holding Posts as people's representatives and who had been elected as people's representatives and a sum of Rs. 1,142 million had been incurred to fulfil 6,070 requirements of medical assistance of the general public. Further, it was not possible to identify separately the number of patients and the value in relation to the sum of Rs. 29.67 million that had to be paid to private institutions and hospitals. | Payments had been made for People's Representatives on the special approval of the President as the Chairman of the Governing Board of President's Fund. A methodology to separately identify the value of bills is being designed using computers. | Action should be taken in compliance with the approved limits.                             |
| (f) | Any forward action has not yet been taken pertaining to the amount of Rs. 100,000 received as a donation to establish a Fund to offer gifts to the persons who are conducting researches to introduce an alternative on for asbestos in the year 2015.  | Forward action would be taken after inquiring from the relevant sectors.  | Should be directed towards anticipated objectives.   |

