

National Defence Fund – 2020

1 Financial Statements

1.1 Opinion

The audit of the financial statements of the National Defence Fund for the year ended 31 December 2020 comprising the statement of balance sheet as at 31 December 2020 and the statement of income, 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. My comments and observations which I consider should be report 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 Fund as at 31 December 2020, 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 Opinion

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 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'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 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'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 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 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 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 “device 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.

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

The following observations are made.

Reference to Laws, Rules Regulations	Non-compliance	Management Comment	Recommendation
(a) National Defense Fund Act No. 9 of 1985, Section 13	As per the provisions of the Act, the Financial statements and Auditor General's Report of the Fund for the years 2018 and 2019 had not been tabled in Parliament.	The Ministry is preparing to submit the audit reports for the year 2018 and 2019 to Parliament.	Action should be taken as per the provision of Section 13 of the Defense Fund Act No. 9 of 1985.
(b) National Defence Fund Act No.09 of 1985, Section 09	No programs were planned during the year under review for the role of promoting and ensuring national security in accordance with the provisions of the Act, in addition to providing benefits to members and families of the Armed Forces who were injured or killed while performing their duties.	The role of the Governing Body in promoting and ensuring national security was noted at the forthcoming Governing Body meeting.	Action should be taken as per the provision of the section 09 of the Defense Fund Act No. 9 of 1985..

(c) Financial Regulations 262 (2)	Sample test were revealed that were 24 occasions of payments amounting to Rs.48,236,368 which are not followed the regulatory provisions prescribed by the Financial Regulations 261 (1) and 262 (2) in order to minimize errors, including double payments, that may occur in connection with the payment of vouchers.	All vouchers and related documents in the future will be noted to be stamped "Paid".	Action should be taken in terms of the Financial Regulations 262 (2)
(d) Financial Regulations 392(a) , (c) & 393	Not complied with the financial regulations in issuing a compensation check due to cancellation or loss of checks and It was observed that there were 14 checks amounting to Rs.54,420.	It was found that there were checks that had not been submitted for payment for a long time and compensation checks were issued for the purpose of settling accounts.	Action should be taken in terms of the Financial Regulations 392(a) , (c) & 393
(e) Financial Regulations 395 (c)	There was no evidence that reconciliation of bank statements relating the Fund's bank account were prepared in a timely manner. As a result , actions were not taken timely manner against the checks not submitted for payment within the validity period.	It was noted that will make sure to make bank comparisons within the relevant period in the future.	Action should be taken in terms of the Financial Regulations 395 (c)

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs. 79,023,742 and the corresponding deficit in the preceding year amounted to Rs. 74,497,183. Therefore a deterioration amounting to Rs.4,526,559 of the financial result was observed. This decline was mainly due to the reduction in investment interest income by Rs.14,780,429.

3. Operational Review

3.1 Operational Inefficiencies

The following observations are made.

Audit Observation	Management Comment	Recommendation
(a) Under the "Virusisu scholarship" programme, Although, it was planned to complete in the 2nd quarter of 2020 to award Rs.25,000 for 150 each students who passed the grade 5 scholarship examination in 2019 for the children of dead & disabled war heroes of three armed forces & police ,the Scholarships had not been awarded to students as of December 31, 2020. Year 2019 Scholarship Results were released in September 2019 and more than 1 year and 3 months have elapsed since the results were released, but the opportunity to avail the benefits of the Scholarship Grant has been lost in a timely manner.	Due to the Covid-19 epidemic in the country, no benefits were provided in the year 2020. Steps have been taken to provide scholarships very soon.	Action should be taking according to approved action plan.
(b) It was planned to pay in three installments Rs.750,000 each for a 322 partially completed houses of deceased and disabled Tri Force, Police Heroes and Civil Servants the final installment had not been paid for 321 houses. Accordingly, although the financial performance of these works was at the level of 64%, the expected level of physical performance had not been achieved.	Due to the Covid- 19 epidemic in the country since the first quarter of 2020, the beneficiaries have not been released premiums due to delays in completing the construction of their houses.	Action should be taken according to approved action plan
(c) Although it was planned to train 500 people to become self-employed through the study of nerd technology, only 24 people were trained	In the year 2021, this training has been given to the remaining 33 war heroes taking into consideration the health condition prevailing in the country.	Action should be taken according to approved action plan

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation

Management Comment

Recommendation

No internal audit of the Fund's activities had been conducted during the year under review.

Due to the Covid-19 epidemic, only a limited staff had to be called in, and the audit could not proceed as planned.

An internal audit should be carried out as planned to check whether the internal control systems of the Fund are properly functioning.