

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of National Defence Fund for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of comprehensive 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, the Finance Act, No.38 of 1971 and National Defence Fund Act, No.09 of 1985. 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 paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the fund as at 31 December 2024, and of 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'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 its annual and periodic financial statements to be prepared.

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 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 institute'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 institute 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 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of Financial Statements

Entities are required to devise and maintain a “well-designed” 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 Accounting Deficiencies

Audit Observation	Management’s Comments	Recommendation
(a) The camel statue inlaid with gems, which had been received as a donation to the National Defence Fund, was revalued at Rs.2,890,415 in 2015 and the revaluation surplus of Rs.2,740,415 had been credited to the Revaluation Reserve Fund. During the year under review, this camel statue was handed over to the Presidential Secretariat and the value of the camel statue of Rs.2,890,415 had been debited to the Revenue and Expenditure Account instead of being debited to the Revaluation Reserve Fund. As a result, deficit for the year under review was overstated by Rs.2,890,415 and the revaluation reserve fund as at 31 December 2024 had been overstated by the same amount.	That the action will be taken to make the relevant corrections through a journal entry.	Relevant adjustments should be made through the revaluation reserve fund and the accumulated fund.

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| (b) | As per the instructions issued by the Inland Revenue Department, although the banking institution from which withholding tax has been deducted should issue withholding tax certificates to the depositors within 30 days of deducting the withholding tax, the withholding tax deduction certificates for withholding tax of Rs.3,895,651 had not been obtained by the fund. | That the withholding tax certificates related to withholding taxes have not been provided by the relevant banks, and actions are being taken to obtain those withholding certificates from the relevant banks. | The certificates related to the withholding tax should be obtained from the relevant banks without delay. |
| (c) | By Cabinet Decision No.CP/17/2287/703/085 dated 25 October 2017, it was decided that there was no provision to exempt the National Defence Fund from income tax. Accordingly, although the Fund was required to submit reports and prepare accounts in accordance with income tax requirements, but it had not acted accordingly. | The National Defence Fund only carries out soldier welfare activities and a letter has been sent to the Commissioner General of Inland Revenue to consider the possibility of exempting the fund from income tax. | Submission of tax returns in accordance with the Inland Revenue Act No.24 of 2017 and its amended Acts and accounts should also be prepared to comply with tax requirements. |

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

Reference to Laws, Rules, Regulations	Non-compliance	Management's Comments	Recommendation
Financial Regulations 877 (1) (c) as amended by Public Finance Circular 01/2020	Although the budget for the coming year of a statutory fund should be prepared in accordance with the objectives of that fund and should be submitted to the Director General of the National Budget with the approval of the Secretary of the relevant Ministry for the Treasury approval before 30 September of the current year, the Fund's budget for the year 2024 had been submitted for approval on 27 November 2023, after a delay of 57 days.	It was noted that the budget document was submitted to the Director General of the National Budget for Treasury approval on the due date.	Financial Regulation 877 (1) (c) as amended by Public Finance Circular 01/2020 should be followed.

1.7 Investment Management

Audit Observation	Management's Comments	Recommendation
Amount of over Rs.3.1 million remained after realization of a fixed deposit of Rs.10.4 million on 02 September 2024, has still been held in the current account as at 31 December 2024 and action had not been made to use that surplus for short-term investments.	That the funds obtained by realization are recorded for effective investment without underutilization.	The action should be taken to invest the surplus funds effectively.

2. Financial review

2.1 Financial Results

The operating result for the year under review was a deficit of Rs.69,946,544, while the corresponding deficit for the previous year was Rs.40,365,301. Accordingly, a decline of Rs.29,581,243 was observed in the financial result. This was mainly due to a decrease in interest income on investments of Rs.53,799,919 or 40.65 percent compared to the previous year.

3. Operational Review

3.1 Operational Inefficiencies

	Audit Observation	Management's Comments	Recommendation
(a)	Although it has been planned to pay Rs.138.33 million in 03 installments to complete 145 semi-constructed houses for soldiers in the year 2024 under the "Methsevana" housing project, only the first installment of Rs.43 million had been paid to 136 housing beneficiaries as at 31 December 2024. Accordingly, due to the payment of only 30 percent of the amount planned to be paid, sufficient performance had not been achieved in this housing project.	That the actions have been taken to inform the welfare departments of the tri-forces and the police and the district coordinating officers of the project at the progress review meeting to complete the part of the Methsevana Semi-constructed Housing Project expected to be completed in the accounting year which is implemented by the National Security Fund within the same year and under consideration will be completed in the same year and to monitor the construction work of the project and complete it promptly.	Efforts should be made to achieve the desired goals planned for each year.
(b)	The budget and action plan of the Fund for the year 2024 had not been submitted for prior approval by the Board of Governors due to the Board of Governors of the Fund had not met in	The Board of Directors will meet after the President appoints a new member, and it is informed that all activities carried out with the cover approval, including the budget and	The approvals should be taken for the budget, action plan and financial statements by

the year 2024 after the meeting held on 17 November 2023. It was also not confirmed that the financial statements of the fund for the year ending 31 December 2024, were presented to the Board of Governors meeting.

action plan for the year 2024, will be forwarded to the Governing Board for approval.

forwarding to the Board of Governors meeting.

3.2 Going Concern of the Fund

Audit Observation	Management's Comments	Recommendation
The net assets of the Fund had been gradually declining from Rs.1,023.45 million to Rs.726 million due to the financial results of the previous years had been continuously reported a deficit for the period of 07 years from 2018 to 2024. Furthermore, fixed deposits were realized annually to finance the expenditure that exceeded the income of each year. This situation could have adversely affected the going concern of the fund.	It is planned to maintain the fund without a deficit in the year 2025.	Attention should be paid to the budget control practices and fund management of the fund.

4. Accountability and Good Governance

Audit Observation	Management's Comments	Recommendation
Although the financial statements of the Fund and the Auditor General's reports should be submitted to Parliament in accordance with Section 13 of the National Defence Fund Act, No.9 of 1985, action had not been taken to table the financial statements and Auditor General's reports of the fund for the years 2018 to 2023 in Parliament.	That the National Defence Fund was under the Ministry of Finance until 2017, and since the reports had not been tabled by that Ministry until then, actions are being taken to table the Auditor General's reports in Parliament up to 2023, including the 2017 report.	Action should be taken in accordance with Section 13 of the National Defence Fund Act, No.9 of 1985.