

1. Financial Statements

1.1 Opinion

The audit of the financial statements of National Defence Fund for the year ended 31 December 2025 comprising the statement of financial position as at 31 December 2025 and the statement of profit and loss and other comprehensive income, statement of changes in net assets/equity and cash flow statement for the year then ended, and notes to the financial statements including material accounting policy information, 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, the financial statements give a true and fair view of the financial position of the fund as at 31 December 2025, 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 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 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 skepticism 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.

Audit scope 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 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Management Comment	Recommendation
Inland Revenue Act No.24 of 2017, as amended by the Inland Revenue (Amendment) Act No.10 of 2021 and the Inland Revenue (Amendment) Act No.45 of 2022.	Although the Cabinet decision dated 25 October 2017 indicated that there were no provisions to exempt the National Defence Fund from income tax, it was observed that registration for income tax purposes and the submission of required records as stipulated by the relevant Act had not been carried out.	A board paper regarding tax registration was submitted for the Board of Directors' meeting, and approval has been granted. Accordingly, actions are being taken to ensure compliance with tax requirements.	Registration and the submission of returns for income tax purposes should be carried out in accordance with the Inland Revenue Act.

2. Financial Review

2.1 Financial Result

The operating result for the year under review was a surplus of Rs.22,160,023 and the corresponding deficit in the preceding year amounted to Rs.69,946,544. Therefore, an improvement amounting to Rs.92,106,567 of the financial result was observed. The main reason for this improvement is the reduction in benefit payments for 'MethSevana' housing amounting to Rs.110,442,509 or 20.16% compared to the previous year.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) In accordance with Section 9 of the National Defence Fund Act No.09 of 1985, although the Fund's cash may be utilized for the purposes and functions deemed by the Board to be most conducive to promoting and ensuring national security, including the	By providing facilities to members of the armed forces who were injured or deceased while on duty and, to their family beneficiaries through the 'MethSevana' semi-constructed housing	Action should be taken to plan and implement suitable programs that directly contribute to promoting and ensuring national

payment of benefits to the families of members of the Police Force or the Armed Forces who were injured or deceased while performing their duties, Apart from providing financial assistance to complete the partially constructed houses of War Heroes who were deceased or disabled in the line of duty, sufficient attention was not paid also during the year under review to identifying, planning, and implementing other suitable programs directly aligned with the Fund's objectives of promoting and ensuring national security.

project and the 'Wirusisu Pradeepa' scholarship project implemented by the fund, ensure their security and enhance their morale by contributing to the advancement of the education of war heroes' children. That it is indirectly contributed to promoting and ensuring national security.

security, in order to achieve the objectives set out in Section 9 of the National Defence Fund Act No.09 of 1985.

- (b) The Governing Board had last met on 17 November 2023 and subsequently, there was no recorded evidence of any meetings taking place during 2024 and 2025, or up to 31 March 2026. Consequently, it was observed that the budget and action plan for the year under review could not be submitted for prior approval of the Governing Board before the year ended.
- Following the appointment of Ven. Professor Atthangane Rathapala Thero as the representative of the President to the Governing Board of the National Defence Fund, the 15th Board of Governance convened on 18 April 2026. During the meeting, the Board granted its approval for the budget, action plan, financial statements, and performance report for the year 2025, which had been submitted for consideration.
- The Governing Board should meet and take actions to approve the budget and action plan before expiring the scheduled deadline.

3.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
Plans were in place to provide financial assistance in 2025 to complete 50 semi constructed houses belonging to war heroes under the 'MethSevana' project, and 32 beneficiaries from the Army, Navy, and Police had met the eligibility criteria for these payments. Accordingly, although the plan was to complete the	Action has been taken to instruct the welfare divisions of the Tri-Forces and the Police, as well as the relevant District Coordinating Officers, during progress review meetings to ensure the completion of the part of the 'Meth Sevana' semi-constructed housing project scheduled for that year within	Action should be taken to promptly deliver benefits to the target beneficiaries of the project, to continuously monitor construction activities and complete them within the scheduled timeframe, and to conduct progress

disbursement of Rs.28.17 million in aid to the 32 selected beneficiaries across three installments within the year, only Rs.7.5 million had been paid to 25 beneficiaries as the first installment by 31 December 2025. Consequently, 73 percent of the planned amount totaling Rs.20.67 million remained unpaid and the project failed to achieve its expected progress as benefit payments could not be completed according to the plan.

the same financial year, and to supervise and expedite the construction activities of the project. Actions are being taken to expedite the completion of the project in coordination with the welfare divisions, while addressing the various factors that have caused delays from time to time.

reviews and provide immediate solutions for identified obstacles.

4. Accountability and Good Governance

4.1 Tabling of Annual Performance Report in Parliament

Audit Observation	Management Comment	Recommendation
Although the financial statements and Auditor General's reports of the Fund were required to be submitted to Parliament in accordance with Section 13 of the National Defence Fund Act No.9 of 1985, the financial statements and Auditor General's reports for the years 2017 to 2024 had not been submitted to Parliament.	The process of tabling the financial performance reports and Auditor General's reports of the National Defence Fund for the period from 2017 to 2024 in Parliament is currently underway.	In accordance with Section 13 of the National Defence Fund Act No.9 of 1985, action should be taken to submit the financial statements and the Auditor General's report to Parliament within the stipulated timeframe.