

National Defence Fund – 2019

1.1 Qualified Opinion

The audit of the financial statements of the National Defence Fund for the year ended 31 December 2019 comprising the balance sheet as at 31 December 2019 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 Section 12(2) of the National Defence Fund Act No. 09 of 1985 and National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

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 2019 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 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 Accounting Deficiencies

The following observations are made.

	Audit observations	Comment of the Management	Recommendation
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(a)	Eventhough programme on Viru Sis Predeepa Scholarship had been implemented by the project continuously, donations of Rs. 7,500,000 at Rs. 25,000 for 300 students of war heroes who passed the grade 5 scholarship had been given by a private bank. The transaction had not been disclosed in the financial statements.	Money had been deposited by opening bank account for the scholarship recipients directly by a private bank. A note had been kept to include such donations by a note in the financial statements in future.	Transactions pertaining to the Fund should be disclosed through the account.

- (b) A Difference of Rs. 804,518 had been observed in the 04 accounts object between value shown in the financial statements and schedule submitted for the audit/calculations by the auditor. A note had been kept to correct the errors of investment, calculation of interest on investment and recording. Further, there are errors in recording of expenses of benefit ceremony and expenses of Wiru Sisu Predeepa Scholarship. Correct value should be shown in the financial statements, relevant ledger accounts and schedules.

1.5.3 Lack of Audit Evidence

Audit observations	Comment of the Management	Recommendation
Fixed Assets Register and board of survey report had not been submitted for the audit pertaining to the fixed assets valued at Rs. 55,700,759 shown in the balance sheet.	Action will be taken to maintained the Fixed Assets Register and submit the board of survey report for the audit.	Fixed Assets Register and board of survey report should be submitted for the audit of financial statements.

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

Reference to the Law, Rules and Regulation	Non-compliance	Comment of the Management	Recommendation
(a) National Defence Fund Act No. 09 of 1985, Paragraph 9	Eventhough it was mentioned funds are required to be utilized to provide relief to the families of the police officers' who injured or died during their duties and promote and certify the national security, programmes had not been scheduled and implemented during the year under review thereon.	It is expected to works as per the intention of the present Governing Board on the objective of the Act. Further, benefits had been given for 25 children of the Police Officers during the year 2019. An approval had been received to give housing benefits for 100 Police Officers and Scholarship for 25 children in year 2020.	Action should be taken as per the provisions of the paragraph 09 of the Act.
(ii) Paragraph 13	Financial statements and Auditor General Reports of the Fund had not been tabled	Action had been taken to table the Auditor General's report for the	Action should be taken as per the provision of the paragraph 13 of the

	in the Parliament from year 2016 to 2019.	year 2018 as per the Act No. 16 of 2018 and amendments on 22.06.2018.	Act.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i)	Financial Regulation 133	An Internal Audit had not been carried out for the Fund.	Comment not received. Action should be taken in terms of the Financial Regulation.
(ii)	Financial Regulation 395 (b)	Bank reconciliations had not been prepared for the current account maintained at the Central Bank of Sri Lanka.	Action will be taken to submit the bank reconciliations for the year 2019 for the audit. Action should be taken in terms of the Financial Regulation.
(c)	Public Finance Circular No. 05/2016 of 31 March 2016 and Financial Regulation 756	In terms of the Circular and Financial Regulation, board of survey report for the year under review had not been submitted for the Auditor General even up to 31 August 2020.	Action will be taken to carry out the board of survey from 2019 onward. Action should be taken in terms of the Financial Regulation and Circular.

1.7 Management of Cash

----- Audit observation -----	----- Comment of the Management -----	----- Recommendation -----
An amount of Rs. 5 million had been remained in the current account of the Central Bank of Sri Lank over 03 months without being invested in effective investment.	If payment of benefits had to be delayed on the unavoidable reasons, it had to be retained that amount in the account. It is unable to utilized that amount in temporary investments practically.	Excess money should be invested without delay.

2. Financial Review

2.1 Financial Result

Operational result for the year under review was a deficit of Rs.74,497,183 and the corresponding deficit of the preceding year amounted to Rs. 87,869,225. Thus it indicated that improvements in the financial result by Rs. 13,372,042. Eventhough decrease in income by Rs. 28,529,826, decrease in expenditure on payments of benefits of Meth Sewana housing by Rs. 39,740,279 and decrease in expenditure on Wiru Sisu Predeepa Scholarship by Rs. 3,565,920 was mainly attributed for the improvement of the financial result.

3. Operating Review

3.1 Management Inefficiency

Audit observation	Comment of the Management	Recommendation
A sum of Rs. 2,419,045 had been spent by the Fund as Rs. 1,792,25 for the ceremony activities of awarding war heroes housing benefits and Rs.626,750 for advertising of such activities by print media during the year under review.	Welfare activities of Rs. 160 million had been carried out by the National Defence Fund during the year under review. It was expected to encourage the war heroes and awareness of general public to provide financial contribute to the Fund.	Cash of the Fund should be spent to achieve the objectives mentioned in the Act.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit observation	Comment of the Management	Recommendation
In terms of paragraph 04 of the Public Finance Circular No. 01/2014 of 17 February 2014, action plan prepared for the year under review had not been included necessary information.	Those information had been included in the action plan of the year 2020.	An annual action plan should be prepared in terms of the Circular.

4.2 Budgetary Control

Audit Observation	Comment of the Management	Recommendation
Budget of the Fund of the year under review had not been used as effective management control tool.	Action will be taken to use the Budget as effective management control tool in future.	Action should be taken to use the budget as effective management control tool.

4.3 Sustainable Development Goals

Audit observation	Response of the Management	Recommendation
----- According to the Sri Lanka Sustainable Development Act, No. 19 of 2017 and President Secretary Circular No. PS/SP/SB/3/201 of 16 March 2018, Sustainable Development goals, targets and index for measurement of targets had not been identified for the Fund.	----- It is expected to achieve the Sustainable Development Goals parallel to the objectives of the Fund.	----- Action should be taken according to the Act and Circular.`.