

National Defence Fund - 2013

The audit of financial statements of the National Defence Fund for the year ended 31 December 2013 comprising the balance sheet as at 31 December 2013 and the income and expenditure account, cash flow statement and register on investments for the year then ended 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 Section 12(2) of the National Defence Fund Act, No. 09 of 1985. My report on the administration of affairs of the Fund mentioned in Section 12(4) of the Fund Act appear in the following paragraphs and the income and expenditure statement and the statement on investment of money owned by the Fund are indicated as annexes 01 and 02 respectively.

1.2 Management's Responsibility for Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with the Generally Accepted Accounting Principles and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000- 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. **Financial Statements**

2.1 **Qualified Opinion**

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Defence Fund as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

2.2 **Comments on Financial Statements**

2.2.1 **Accounting Deficiencies**

The following observations are made.

- (a) No action had been taken to revalue and account for the property, plant and equipment at a cost of Rs. 15,700,000 owned by the Fund.
- (b) Even though the depreciation of an asset should commence from the moment of converting to a suitable status for usage, the policy of non-depreciation had been followed for the year of purchase of assets contrary to it.
- (c) A cash flow statement had not been prepared so as to reflect the movement of money into and out according to each activity during the year under review.

2.2.2 **Lack of Evidence for Audit**

It had been confirmed in writing that the frame of camel embedded with gems valued at Rs.150,000 at that date, received as donation by the Fund in the year 1987 had been handed over to the Presidential Secretariat in the year 1989. However, its physical existence had not been confirmed by the Fund.

2.3 **Non-compliance with Laws, Rules, Regulations and Management Decisions**

Even though a Register of Fixed Assets should be prepared in terms of the Treasury Circular No.842 dated 19 December 1978 and the Financial Regulation 502(2), no such Register on Fixed Assets of the National Defence Fund had been prepared.

3. **Financial Review**

Financial Results

According to the financial statements presented, the operations of the Fund for the year under review had resulted in a surplus of Rs.80,688,937 as compared with the corresponding surplus of Rs.57,510,514 for the preceding year, thus indicating an improvement in the financial results by Rs.23,178,423 for the year under review as compared with the preceding year. Increase of interest income on investments by Rs.19,793,907 or by 30 per cent and decrease of welfare expenditure by Rs. 3,389,602 or 47 per cent had been the main reason for this improvement.

4. **Operating Review**

4.1 **Performance**

Even though it was the function of the Board of the Control to utilize the money of the Fund under the directions of the President in most reasonable manner as considered by the Board of Control and to the activities to promote and assure the national defence including payment of any benefits to the families of the Police Forces or Armed Forces or any members who were wounded or died while carrying out their duties, utilization of income earned annually for the relevant purposes was at a very weak level. Particulars relating to income received during the previous 05 years and incurring welfare expenditure thereon are given below.

Year	Total Income Received	Welfare Expenditure	Percentage of Amount Spent for Welfare Expenditure from the Income Received
	Rs.	Rs.	
2009	78,037,379	5,500,000	7.05
2010	75,509,010	40,108,739	53.12
2011	49,082,045	-	0
2012	64,988,177	7,238,435	11.14
2013	84,776,544	3,848,832	4.54

4.2 **Management Inefficiencies**

The rentals totalling Rs.721,500 to be recovered for the years 2012 and 2013 for 3 houses belonging to the Fund rented out for the utilization of the Army had not been recovered even by 31 July 2014. The rentals had been finally revised in the year 2006 and attention had not been drawn to revise the house rent even though 08 years had lapsed after the final revision.

4.3 **Idle and Underutilized Assets**

It was observed in audit that an adequate amount of money exceeding the requirement of working capital had been remained idle in a Bank Current Account constantly by the Fund. Accordingly, a proper method had not been followed in constant investment of money owned by the Fund for means of benefits.

5. Accountability and Good Governance

5.1 Corporate Plan

Even though a Corporate Plan should be prepared by the National Defence Fund at the beginning of the year at least for 03 years from the year 2010 onward in terms of letter No.PF/R/2/2/3/5 (4) dated 10 March 2010 of the Director General of the Public Finance, it had not been prepared even by 31 December 2013.

5.2 Action Plan

An Action Plan for the year under review had not been prepared even by 31 December 2013.

5.3 Performance Report

Even though an Annual Performance Report that should be prepared by the National Defence Fund within 150 days after the closure of the financial year in terms of Public Finance Circular Nos.402 and 402(1) dated 12 September 2002 and 20 February 2004, should be tabled in Parliament with a copy to the Auditor General, the performance report for the year under review had not been tabled in Parliament even by 31 October 2014.

5.4 Procurement Plan

The Procurement Plan for the year 2013 had not been prepared even by 31 December 2013 in terms of National Budget Circular No.128 dated 24 March 2006.

5.5 Meetings of the Board of Control

Meetings of the Board of Control had not been conducted even in the year under review as well as in the preceding years.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Secretary of the Fund from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Financial Management

Statement of Income and Expenditure of the National Defence Fund for the year ended 31 December 2013.

Income -----	2013 ----- Rs.	2012 ----- Rs.
Donations	34,281	39,820
Interests on Investments	84,076,263	64,282,357
House rent	666,000	666,000
	-----	-----
	84,776,544	64,988,177
	=====	=====
<u>Expenditure</u>		
Staff allowances	20,400	20,400
Welfare Expenditure	3,848,832	7,238,435
Depreciation on Buildings	174,875	184,078
Ranaviru Donations	43,500	34,750
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	4,087,607	7,477,663
	=====	=====
Income over Expenditure	80,688,937	57,510,514

Statement of Investment of Funds

Invested Institute	Account Number	Date of Investment	Period (Years)	Balance as at 31 December 2013
-----	-----	-----	-----	-----
				Rs.
National Savings Bank	2/0001/21/20267	28 August 2013	01	118,569,341
Treasury Bills	LKB00515G159	19 July 2013	01	75,014,360
National Savings Bank	2/0065/11/78148	21 September 2013	01	98,027,365
National Savings Bank	2/0065/11/75815	27 June 2013	01	94,421,360
National Savings Bank	2/0065/11/75807	27 June 2013	01	88,566,222
National Savings Bank	2/0065/11/75823	27 June 2013	01	110,880,615
National Savings Bank	2/0065/11/69297	28 December 2013	01	52,056,475
National Savings Bank	2/0065/11/73189	24 March 2013	01	66,182,776
National Savings Bank	2/0065/11/75912	30 June 2013	01	9,766,673
National Savings Bank	2/0065/11/75939	30 June 2013	01	12,566,717
National Savings Bank	2/0065/11/76722	16 July 2013	01	2,072,948
National Savings Bank	2/0065/11/76749	16 July 2013	01	2,072,948
National Savings Bank	2/0065/10/25058	31 March 2013	01	400,000
People's Bank	0033 - 261 - 070152 - 4	30 September 2013	01	26,288
National Development Bank	108250754499	20 February 2013	01	3,517,657
National Development Bank	108250784606	01 April 2013	01	5,951,000
National Savings Bank	2/0065/11/78202	25 September 2013	01	200,000

				<u>740,292,745</u>