

National Defence Fund - 2014.

The audit of financial statements of the National Defence Fund for the year ended 31 December 2014 comprising the balance sheet as at 31 December 2014 and the income and expenditure account, cash flow statement and the register of 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.

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 Sri Lanka Public Sector Accounting Standards 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 Auditing 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 judgement, 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 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The Following observations are made.

- (a) In terms of Sri Lanka Public Sector Accounting Standard 01, the statement of changes in equity had not been prepared and furnished with the financial statements of the year under review.
- (b) Even though in terms of Sri Lanka Public Sector Accounting Standard 02, the cash flow statement should report cash flows during the period classified under operating, investing and financing activities, it had not been presented accordingly during the year under review.
- (c) Even though in terms of Sri Lanka Public Sector Accounting Standards 07, property, plant and equipment should have been revalued to show the fair value, action had not been taken to revalue the lands valued at Rs.11,030,000, buildings valued at Rs.4,520,000 and antiquities received as donations valued at Rs.150,000 .

2.2.2 Accounting Policies

Accounting Policies followed in the preparation of the final accounts of the Fund had not been disclosed.

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, no such Register in respect of the assets belonging to the Fund had been prepared.

3. Financial Review

3.1 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.66,075,563 as compared with the corresponding surplus of Rs.80,688,937 for the preceding year, thus indicating a deterioration in the financial results by Rs.14,613,374 for the year under review as compared with the preceding year. Decrease of interest income on investments by Rs.14,785,006 or by 18 per cent had been the main reason for this deterioration.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) Even though it was the function of the Board of 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 and Ranaviru donations thereon are given below.

Year	Total Income Received	Welfare Expenditure and Ranaviru Donations	Percentage of Amount Spent for Welfare Expenditure and Ranaviru Donations from the Income Received
	Rs.	Rs.	%
2014	69,967,787	3,698,843	5.29
2013	84,776,544	3,892,332	4.59
2012	64,988,177	7,273,184	11.19
2011	49,082,045	32,250	0.06
2010	75,509,010	40,149,839	53.17

- (b) According to the information made available to audit, number of members belonging to the Tri Forces who died and disappeared while in operation were 25,273 and the number of disabled war heroes were 18,256. However, only awarding of the savings deposits amounting to Rs.3,450,000 had been carried out during the year under review for 138 students who got through the year 5 Scholarship Examination belonging to the families of the deceased, disabled and disappeared officers of the Tri Forces and the Police while in operation. Accordingly, relief had been provided only for a limited number of the family members of the deceased, disabled and disappeared officers. The attention of the Fund had not been paid on other alternative actions to provide them relief by setting up a formal concessionary scheme for the all members.

4.2 Management Inefficiencies

The rentals totalling Rs.1,387,500 to be recovered from December 2012 to the end of the year 2014 for 3 houses belonging to the Fund rented out for the utilization of the Army had not been recovered even by 18 November 2015. Action had not been taken by the Board of Control of the Fund to revise the house rent after the year 2006.

5. Accountability and Good Governance

5.1 Budget

The following observations are made.

- (a) The Budget for the Fund had not been prepared and furnished to the Auditor General with the proper approval in terms of Section 4.1(a) of the Public Finance Circular No.PF/423 dated 22 December 2006. Further, it should be furnished to the Director General of National Budget and the Director General of Public Finance, but the aforesaid necessities had not been fulfilled by the Fund.
- (b) Even though, in terms of Section 4.1(c) of the aforesaid Circular, any expenditure should not be incurred in the relevant financial year without an approved budget, the Fund had spent a sum of Rs.3,719,493 during the year under review without an approved budget.

5.2 Annual Action Plan

An Annual Action Plan had not been prepared for the year under review including the activities in a manner to facilitate the achievement of the targets mentioned in the Act, as per Paragraph 04 of the Public Finance Circular No.01/2014 of 17 February 2014.

5.3 Meetings of the Board of Control

The Secretary to the Fund informed to audit that failure to hold meetings due to the inconvenience of gathering of the relevant members. It was observed that it had effected in taking important decisions for the operation of the Fund under such circumstances.

6. 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. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Fixed Assets Management
- (c) Performance