

President's Fund - 2014

The audit of Financial Statements of the President's Fund for the year ended 31 December 2014 comprising the Balance Sheet as at 31 December 2014 and the statement financial performance, cash flow statement for the year then ended and a summary of other explanatory information, 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 Section 9(2) of the President's Fund Act, No.7 of 1978. My comments and observations which I consider should be published with the Administration Report on the activities of the Fund including the statement of financial performance stated under Section 9(4) of the said Act to be presented to the Hon. Minister of Finance in terms of Section 10 of the Fund Act as Annex 01, and the statement of investments of cash as Annex 02 appear in this report.

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the President's 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 Accounts Receivable and Payable

The balance that remained further recoverable from the loan of Rs. 250 million granted to the National Housing Development Authority in the year 1991 amounted to Rs. 195 million. According to the letter, No. 3/1/1/42 dated 22 August 2014 of the Secretary to the Ministry of Construction, Engineering Services, Housing and common Amenities addressed to the Secretary, to the president it had been agreed to pay back the said loan at Rs. 01 million per month with effect from September 2014. However, according to the letter, No. 4/3/B/23/vol.iii dated 24 March 2015 of the General Manager of the National Housing Development Authority addressed the Accountant of the Fund, the loan amount that the National Housing Development Authority had agreed to pay back, amounted to Rs. 61.9 million, whereas an agreement had not been reached by both parties as to how the remaining loan balance of Rs.133.1 million, and the accrued interest amounting to Rs. 315.9 million should be settled.

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.474.6 million as compared with the corresponding surplus of Rs.531 million for the preceding year. As such, a deterioration of the financial result amounting to Rs.56.4 million had been indicated as compared with the preceding year. The deterioration of the financial result had mainly been caused by the increase in the expenditure of the Fund by a sum of Rs.118.3 million as compared with that of the preceding year.

3.2 Analytical Financial Review

The following observations are made.

- (a) A sum of Rs. 2, 060.4 million received from the Development Lotteries Board in the year under review had represented 88 percent of the total income. As compared with the receipt of Rs.2009.3 million in the preceding year this indicated an increase of Rs.51.1 million.
- (b) The investments of the Fund as compared with the preceding year, had indicated an improvement of Rs. 292.6 million equivalent to 17 per cent in the year under review.

More than 70 per cent of those investments had been maintained in the form of fixed deposits of the National Savings Bank. The interest income of the Fund receivable as at the end of the year as compared with Rs.343.5 million as at the end of the preceding year, had increased by a sum of Rs. 43.3 million representing 12.6 per cent. The amount receivable from the Development Lotteries Board by the end of the year had increased by a sum of Rs. 177.6 million representing 197 per cent as compared with that of the preceding year amounting to Rs. 90 million.

- (c) The expenditure incurred on educational, religious, welfare and medical assistance activities as compared with the preceding year had indicated increase of 168 per cent, 63 per cent, 54 per cent, and 16 per cent respectively.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The Fund had spent a sum totalling Rs. 968.09 million during the year under review for the payment of medical assistance, cultural affairs, religious affairs, welfare activities, educational activities, sports and arts activities, award of local and foreign scholarships and special Projects. Of that total expenditure, a sum of Rs.810.38 million or 83.71 per cent and 11.44 per cent had been spent for the medical assistance, and local and foreign scholarships respectively, whereas 4.85 per cent of the total expenditure had been spent for the achievement of other objectives.
- (b) A sum of Rs.547.19 million for 4,157 Heart Operations, Rs.72.59 million for 565 cancer treatments, Rs.62.79 million for 355 Kidney transplants and Rs.127.8 million for 815 other treatments had been spent during the year under review as medical assistance. Number of patients and the expenditure incurred during the year had increased by 781 and Rs.112.86 million respectively as compared with the number of patients and the expenditure incurred during the previous year amounting to 5,111 patients and Rs.697.53 million respectively.
- (c) A sum of Rs.108.56 million had been spent during the year under review on scholarships for 18,293 students who studied GCE (A/L) examination, and a sum of Rs.1.70 million had been spent for 03 foreign scholarships.

4.2 Management Inefficiencies

There had been a balance amounting to Rs. 55.2 million in a current account of the Central Bank of Sri Lanka by the end of the accounting period. The average monthly receipts of the Fund during the year under review amounted to Rs. 186.7 million, whereas the average monthly payments amounted to Rs. 172.5 million. Accordingly, the average of the cash balance retained in the bank account monthly was about Rs. 14.2 million. As compared with the previous year, the yearend cash balance of the year under review had increased by 573 per cent. Had the excess amounts been invested in short-term deposits without being retained in the account monthly, a sum of Rs. 0.6 million could have been earned monthly at the

minimum interest rate of the fund investments in the year 2014. However, the management had not taken this into consideration.

4.3 Operating Inefficiencies

A sum of Rs.2.4 million had been paid by the Fund for foreign scholarships during the year 2014 in 05 instances, and under 3 of those instances, information on the reasons to pay for scholarships valued at Rs.1.7 million, had not been included in the files.

4.4 Identified Losses

The sum of Rs. 363.4 million invested in the Treasury as an administrative loan, had been converted into Treasury bonds valued at Rs. 338.8 million on 31 January 2014 at an interest rate of 10.6 per cent and for maturity after 5 years. A loss of Rs. 24.6 million had been incurred in the conversion, and the loss had been written off from the Accumulated Fund in the year under review.

4.5 Budgetary Control

A comparison of the actual income and expenditure of the Fund during the year under review with the budgeted figures revealed variances ranging from 4 per cent to 149 per cent. As such, the Budget had not been made use of as an effective instrument of management control.

5. Systems and Control

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 receivable debtor balances.

Statement of Financial Performance**Annex 01**

According to the financial statements presented to audit, income and expenditure of the Fund for the year ended 31 December 2014 as compared with the preceding year are given below.

Income -----	For the year ended 31 December			
		2014		2013
	Rs.	Rs.	Rs.	Rs.
Receipts of Contributions	65,255,844		63,506,485	
Interest Income	214,931,518		205,855,975	
Receipts from Development Lotteries Board	2,060,462,639		2,009,375,000	
	-----	2,340,650,001	-----	2,278,737,460
Expenditure -----				
Audit Fees	160,000		150,000	
Legal Fees	-		3,000	
Stationery	-		13,500	
Payment of Medical Assistance	810,385,663		697,529,990	
Cultural Affairs	1,225,000		1,075,000	
Religious Affairs	15,050,000		9,250,000	
Welfare Activities	8,715,000		5,658,250	
Educational Activities	1,340,000		500,000	
Expenditure of the Scholarship Scheme	110,774,000		110,344,000	
Special Projects	20,000,000		23,908,280	
Sports and Arts Activities	600,000		3,000,000	
Fifty per cent contributions to Mahapola Higher Education Fund	897,768,399	1,866,018,062	896,255,500	1,747,687,520
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Excess of Income over Expenditure		474,631,939		531,049,940
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Annex 02

Statement of Investment of Money belonging to the Fund

According to the Financial Statements presented to audit, particulars of investment of money belonging to the Fund as at 31 December 2014 are given in the following table.

Type of investment	Balance as at 01 January 2014	Investments in the year 2014	Withdrawals in the year 2014	Loss from the Investments	Balance as at 31 December 2014
-----	----- Rs.	----- Rs.	----- Rs.	----- Rs.	----- Rs.
Fixed Deposits in the National Savings Bank	1,030,100,000	360,025,000	-	-	1,390,125,000
Fixed Deposits in the People's Bank	-	12,080,000	-	-	12,080,000
Fixed Deposits in the Bank of Ceylon	305,755,000	100,125,000	155,055,000	-	250,825,000
Investment in the Development Lotteries Board	2,200,000	-	-	-	2,200,000
Treasury Administrative Loans	363,375,000	-	363,375,000	-	-
Treasury Bonds	-	363,367,859	-	24,577,859	338,790,000
Total	1,701,430,000	835,597,859	518,430,000	24,577,859	1,994,020,000
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