

Api Wenuwen Api Fund - 2015

The audit of financial statements of the Api Wenuwen Api Fund for the year ended 31 December 2015 comprising the balance sheet as at 31 December 2015 and the income and expenditure account and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 11(7) of the Api Wenuwen Api Fund Act, No. 06 of 2008. My comments and observations which I consider should be published with the Annual Report of the Fund in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

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 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. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and the extent of the audit.

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 Api Wenuwen Api Fund as at 31 December 2015 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

Development expenditure amounting to Rs.188,619,663 and operating expenditure amounting to Rs.2,220,044 had been shown as a single amount in the financial statements instead of showing them separately in terms of Sri Lanka Public Sector Accounting Standard 01.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) Due to the purchase of two houses by providing false information, the cost thereof was being recovered from the two relevant officers while the balance recoverable further as at 31 December 2015 amounted to Rs.1,472,254. This recoverable balance had not been identified in the financial statements.

(b) Income of Rs.3,389,197 pertaining to the charges for telecommunication towers in the year under review had been understated in accounts.

2.2.3 Lack of Evidence for Audit

Particulars of expenditure in support of the expenses totalling Rs.55,910,607 pertaining to Ranaviru Housing Projects completed in 03 districts during the year under review were not made available to audit.

2.2.4 Unexplained Differences

According to the Ledger Account, the income from charges for telecommunication towers receivable from a telecommunication company in the year under review amounted to Rs.67,527,418 whereas it was Rs.55,254,186 as per the schedule presented. Thus, a difference of Rs.12,273,232 was observed while action had not been taken to identify the reasons therefor and rectify it.

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

A physical verification in terms of Financial Regulation 757 of the Democratic Socialist Republic of Sri Lanka had not been carried out in respect of fixed assets and minor equipment of which the book value as at 31 December 2015 amounted to Rs.11,366,664.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review had been a surplus of Rs.104,762,495 as against the deficit of Rs.68,264,236 for the preceding year, thus indicating an improvement of Rs. 173,026,731 in the financial result for the year under review as compared with the preceding year. The decrease in project expenditure by Rs.216,146,352 despite the decrease in public contribution as donations and interest income on investments by Rs.24,672,179 and Rs.27,936,355 respectively had mainly attributed to the above improvement in the financial result.

4. Operating Review

4.1 Performance

(a) In terms of Section 4 of the Api Wenuwen Api Fund Act, No. 06 of 2008, the objectives of establishing the Fund had been as follows.

- To formulate schemes to provide financial assistance for construction of houses for armed service personnel;
- To make provision for the grant of assistance to armed service personnel to obtain and repay the loans obtained by them from financial institutions;
- To formulate a scheme to ensure the repayment of the loans, in the event any armed service personnel dies or is permanently disabled or injured, in action or otherwise.

(b) Even though 08 years has elapsed since the establishment of the Fund, the management of the Fund had failed to fulfill the objectives that is, making provision for the grant of assistance to armed service personnel to obtain and repay the loans obtained by them from financial institutions and formulation of scheme to ensure the repayment of the loans, in the event any armed service personnel dies or is permanently disabled or injured, in action or otherwise.

4.2 Operating Inefficiencies

Arrears of income from charges for telecommunication towers as at the end of the year under review amounted to Rs.96,753,121 while the Fund had not taken action to collect the charges/income receivable in respect of communication towers within the due period in terms of agreements. Further, annual interest of 8 per cent on delays had not been recovered, thus the interest income that could have been earned by investment of money had been deprived of to the Fund.

4.3 Delayed Projects

A total number of 1,664 houses were planned to be constructed in 22 districts from the year 2010 up to the end of the year under review in respect of close relatives of war heroes who

have been killed in action and the war heroes who have become disabled in action and still in service. Out of them, construction work of 281 houses had not been completed.

4.4 Underutilization of Funds

A sum of Rs.2,983,665 received as security deposits and annual lease rent pertaining to stall rents from the year 2013 up to 2015 had been deposited by the Fund in a current account maintained in respect of the Ranajayapura Housing Scheme. This amount had remained idle in the relevant current account from February 2013 up to 31 December 2015.

5. Accountability and Good Governance

5.1 Action Plan

An Annual Action Plan in terms of Section 04 Public Finance Circular No.01/2014 of 17 February 2014 had not been prepared.

5.2 Procurement Plan

A Procurement Plan in terms of National Budget Circular No.128 of 24 March 2006 had not been prepared for the year under review.

5.3 Budgetary Control

An Annual Budget in terms of Section 4.1 of the Public Finance Circular No. No.PF/423 of 22 December 2006 had not been prepared, whereas no expenditure whatsoever should be incurred in the relevant financial year without an approved budget in terms of Section 4.1(c) of the said circular. Contrary to that, a sum of Rs.190,722,194 had been spent during the year under review.

6. Systems and Controls

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

Areas of systems and control

Observations

Areas of systems and control -----	Observations -----
(a) Accounting	Failure to account the income and expenditure of the year properly, deficiencies existed in submitting reimbursement bills.
(b) Contract Administration	Delay in handing over houses to the beneficiaries due to the delay in constructing houses.
(c) Financial Control	Failure to update the Register on charges from telecommunication towers and non-recovery of charges recoverable, non-investment of excess money.