

## **Api Wenuwen Api Fund – 2017**

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The audit of financial statements of the Api Wenuwen Api Fund for the year ended 31 December 2017 comprising the Balance Sheet as at 31 December 2017 and the Income and Expenditure Account and 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 the paragraph 11(7) of the Api Wenuwen Api Fund Act, No. 06 of 2008.

### **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 judgement, including the assessment of 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 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 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, financial position of the Api Wenuwen Api Fund as at 31 December 2017 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**

According to the paragraph 48 of Sri Lanka Public Sector Accounting Standards-01, the revenue generated should not be set off with the expenses incurred each other unless it is permitted or necessary. However, the water and electricity charges of the Auditorium of the Ranajayapura Shopping Complex amounting to Rs.34,906 incurred during the year under review had been set off against the rent income amounting to Rs.791,200 of Shopping Complex. Therefore the income and expenses of the Shopping Complex had been understated by Rs 34,906.

#### **2.2.2 Evidence not made available**

The evidenced indicated against the items undermentioned had not been made available for audit.

<u>Item of Account</u>	<u>Value</u>	<u>Evidence not made available</u>
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	Rs	
General Ledger- Adjustment Entries	20,415,806	Journal Vouchers
- Correction Entries	2,297,908	Journal Vouchers
Minor Equipment and Utensils	1,064,815	Schedules
Depreciation on Minor Equipment and Utensils	157,445	Schedules
Revenue on Investment Interest	111,132,876	Schedules

### **2.3 Receivable Accounts**

The following observations are made.

- (a) Communication Tower Income receivable from 07 Communication Companies as at 31 December of the year under review amounted to Rs.22,695,823 and out of that a sum of Rs 1,833,983 had remained outstanding for over 03 years. The feedback process on action taken to recover the outstanding balances had remained weakened. Further, actions had not been taken to get the balances confirmed.

- (b) Loan rentals aggregating Rs.16,218,314 had remained outstanding from 454 house holders of Ranajayapura Housing Scheme as at 31 December of the year under review and it included loan rentals aggregating Rs.7,919,000 remained outstanding for over 02 years. The feedback process on action taken to recover the outstanding balances had remained weaken.

#### **2.4 Non - compliance with Laws, Rules , Regulation and Management Decisions**

The following observations are made.

<b>Reference to Laws, Rules, Regulation and Management Decisions etc</b>	<b>Non- compliance</b>
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Finance Act No.38 of 1971 Paragraph 11	The concurrence of the of Minister of Finance and approval of the Minister in charge had not been obtained for the investment amounting to Rs 151,800,000 made during the year under review.
Financial Regulations of the Democratic Socialist Republic of Sri Lanka FR 756 and 757 and the Public Finance Circular No. 05/2016 of 31 March 2016	The physical verifications in connection with fixed assets and minor equipment valued at Rs 8,600,518 remained as at 31 December 2017 had not been made.
National Procurement Guidelines-2006	Procurement Plan had not been prepared for the year under review as required by the paragraph 4.2 of the National Procurement Guidelines.
Public Finance Circular No. 01/2014 of 17 February 2014 Paragraph 04	Annual Action plan for the year under review which includes targets had not been prepared in order to achieve the objective of the Fund.

### **3. Financial Review**

#### **3.1 Financial Results**

According to the financial statements presented, the financial result of the Fund for the year under review was a surplus of Rs.196,813,687 compared with the surplus of Rs 103,224,875 the previous year showing an increase of Rs.93,588,812 of the financial result of the Fund for the year under review. The increase of revenue by Rs.17,482,960 and decrease of expenditure by Rs 76,105,852 during the year under review were the main causes for the improvements.

When analyzing of financial results of the Fund for the year under review and previous 04 years period, the surplus of amounting to Rs.67,310,121 in 2013 had been deteriorated up to a deficit of Rs 68,264,236 in 2014 and thereafter, improved up to Rs.196,813,687 as at 31 December 2017. However, after adjusting the financial results for the provision for depreciation on the non-current assets the contribution of the Fund amounting to Rs.68,438,279 in 2013 had been deteriorated by Rs.132,082,641 upto a minus contribution of Rs.63,644,362 in 2014. However, the contribution had been increased upto Rs .199,966,878 at the end of the year under review.

## **4. Operational Review**

### **4.1 Performance**

#### **4.1.1 Functions and Reviews**

The following observations are made.

- (a) The activities such as launching of credit schemes for the members of the armed forces, deceased or disabled in action, providing services for housing facilities, implementing of schemes ensuring to repay installment of loans obtained etc should be implemented to achieve the aims and objectives of the Fund. However, it was observed that financial strengths of the Fund had not been adequately used to achieve such objectives and invested such funds in treasury bills and fixed deposits in the state owned banks over a long period. Therefore, a sum of Rs. 1,116,481,719 had remained invested as at 31 December 2017.
- (b) The plan proposed to launch a loan scheme for 75 solders to grant a sum of Rs 1,000,000 each to release burden on loans obtained from licensed financial institutions for the purposes of purchasing of a land for settlement purpose or construction or repairing of houses etc and recover 50 per cent of said amount in 60 installments had not been implemented during the year under review.
- (c) Eventhough the proposed scheme to grant financial assistance of Rs.750,000 in 03 installments of Rs.250,000 each to complete the balance works of construction for 100 householders who owned half completed residences had been implemented during the year under review, the final installments for any of householder had not been released even as at 31 December 2017.

#### **4.2 Management Activities**

Eventhough the donations aggregating Rs.22,300,000 had been estimated in the Budget of the Fund for the year 2017, only the donations of Rs .653,333 had been received in 2017. Further, the financial assistance from any of government owned institutions had not been received during the year under review.

#### **4.3 Funds Underutilized**

A sum of Rs. 2,704,810 had remained idle over 02 years in the Bank Current Account No 0074243929 of the Fund without taking action to invest in a way of generating an income in effective manner.

## **5. Accountability and Good Governance**

### **5.1 Presentation of Financial Statements**

The following observations are made.

- (a) The financial statements for the year ended 31 December 2017 required to be submitted to the Auditor General within 02 months after the end of the accounting year, as required by the Public Finance Circular No.PF/423 of 22 December 2006 had been submitted only on 03 April 2018.

- (b) Action had not been taken from the beginning of the year upto now to table the financial statements of the Fund and the Auditor General's Report in the Parliament , as required by the paragraph 11(6) of the Api Wenuwen Api Act, No. 06 of 2008.

## **5.2 Internal Audit**

According to the Internal Audit Plan of the Ministry of Defense, 02 Internal Audit programmes were planned to be conducted during the year under review. However, copies of the reports thereon had not been submitted to the Auditor General, as required by the Financial Regulation 134(3).

## **5.3 Procurements and Contract Procedure**

### **Procurements**

A Procurement Plan for the year under review had not been prepared , as per National Budget Circular No. 128 dated 24 March 2006 and paragraph 4.2 of the Government Procurement Guidelines.

## **5.4 Budget Control**

The annual budgeted cost of the Budget prepared for the Fund amounted to Rs 225,000,000 and the actual cost thereon amounted to Rs.164,491,380. Therefore, planned costs amounting to Rs 60,508,620 had remained unutilized and thus it indicated that the Budget had not been used as an effective tool of control.

## **6. System and Controls**

The weaknesses on system and controls observed during the course of audit had been submitted time to time to the management of the Fund. The special attention is required to be paid on the following fields of system and controls.

<b><u>Area of Systems and Controls</u></b>	<b><u>Observations</u></b>
(a) Accounting	The weakness on recording transactions in the General Ledger without raising Journal Vouchers, recognition of transactions, reporting, updating of Ledger Records, classification and maintaining of Register of Fixed Assets had been existed.
(b) Project Monitoring and Supervision	Delays in implementation of procurements and construction works and poor supervision of the Line Ministry.
(c) Controls over Revenue Collection	Recovery of outstanding fees on hiring of communication towers, non recovery of outstanding rentals on Ranajayapura Housing Scheme.