

President's Fund - 2019

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the President's Fund for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended and the notes in relation with the financial statements, including a summary of significant accounting policies 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 the President's Fund Act No. 07 of 1978 and the provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Fundas at 31 December 2019 and of its financial functions and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards .

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as Management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, it is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Fund.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Though an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances was obtained, it was not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Concluded on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following.

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund ;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on Preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) The Fund had not accounted for, a total of Rs.24,948,809 pertaining to confiscated motor vehicles and other items after 06 months elapsed from the date of determination of the prize winners from the year 2015 to 2018 and a total of Rs.16,033,489 pertaining to the year 2019 so far according to the information submitted to the audit by the Development Lotteries Board.</p>	<p>The cash value of confiscated motor vehicles and other items are not remitted by the Development Lotteries Board to the President's Fund.</p> <p>The Development Lotteries Board has informed in writing that the confiscated motor vehicles and other items are used for other promotions of draws.</p>	<p>Actions should be taken in accordance with the provisions of the relevant Act.</p>
<p>(b) Even though the Fund had earned a gross interest income of Rs.138,320,000 in 2019 on the maturity of Fixed Deposits valued at Rs.1,400,000,000 invested in 2018, only an amount of Rs.130,575,027 had been brought to accounts as interest</p>	<p>The net interest of Rs.165,155,027 has been used as interest after recovering of withholding tax amounting to Rs. 7,744,973 by the bank for the relevant investment of Rs. 1,400,000,000 and this does not affect the</p>	<p>The accurate values should be included in the financial statements.</p>

income during the year under review. Accordingly, the interest income had been understated by Rs.7,744,973 .

final outcome of the financial statements.

(c) As a result of the Cheques issued but not presented for payment for more than 06 months valued at Rs.3,626,727 had been credited directly to the accumulated fund without considering as an income of the year under review, the surplus of the current year had been understated by the same amount.

Adjustments have been made to the cumulative fund considering as the cheques not presented for payments in previous years.

The financial statements should be prepared consisting of accurate information.

(d) The following shortcomings were observed in the cash flow statement.

(i) Changes in surplus of the previous year that should not be adjusted to the surplus of the current year of the cash flow statement amounting to Rs.6,522,113, had been adjusted.

Adjustments have been done under the format to be disclosed under the Accounting Standards.

The financial statements should be prepared consisting of accurate information.

(ii) The variances totalled to Rs.3,841,385 that should not be adjusted to the working capital changes in the cash flow statement had been adjusted and the variances amounting to Rs.322,000 to be adjusted under working capital changes had not been adjusted .

The error of not recording the accrued balances in the cash flow statement has been corrected from the year 2020.

The financial statements should be prepared consisting of accurate information.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Non-compliance with Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(i) (a) Section 6 of the President's Fund Act No. 7 of 1978	Although the money belonging to the Fund may be used as determined by the Board of Governors, the approval of the Board of Governors had not been	Answers have not been given .	Actions should be taken in accordance with the provisions of the Act.

obtained even by 02 August 2021, the date of audit for a total of Rs.659,287,255 incurred from October to December 2019 .

<p>(b) Financial Regulations 372 of the Democratic Socialist Republic of Sri Lanka</p>	<p>The medical assistance payments incurring from the imprest maintained at the Deputy High Commission of India amounting to Rs.6,000,000 had been accounted for on cash basis considering as payments made directly from the cash book without considering of the payment made by the imprest. As a result, although the imprest balance was Rs. 6,000,000 as per the statement of financial position as at 31 December 2019, the balance confirmed by the Deputy High Commission of India was only Rs. 13,909,814.17 .</p>	<p>In cases of carrying out the imprest of Rs. 6 Million by the President's Fund is not sufficient, cheques are issued separately for payment of medical assistance. Accordingly, although the balance of Rs. 8 Million issued on two occasions is included in the cash balance , as a result of the release at the end of the year, the imprest balance has increased by that amount due to non-submission of bills to be paid by these cheques by 31 December .</p>	<p>Actions should be taken in terms of Financial Regulations.</p>
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2. Financial Review

2.1 Financial Results

The operating result for the year under review was a surplus of Rs.615,388,704 and the financial result for the preceding year was a surplus of Rs.254,920,004 . Accordingly, a growth of Rs.360,468,700 was observed in the operating result. Increase of revenue by Rs.530,607,859 or 22 per cent during the year under review as compared to the preceding year had mainly attributed to this growth and the expenditure for the year under review had also increased by Rs.169,860,392 as compared to the preceding year.

2.2 Trend Analysis of Major Revenue and Expenditure Items

The following observations are made.

- (a) Receipts and interest income from the Development Lottery Board which is the main source of income for the Fund had increased by Rs.481.19 Million and Rs.27.26 Million that is 22 per cent and 13 per cent respectively as compared to the

preceding year and receipt of contributions from other parties had increased by Rs.22.16 Million as compared to the preceding year.

- (b) A total of Rs.1189.70 Million had been spent for the medical aid, welfare, cultural affairs, religious affairs, education, sports and arts, special projects and local scholarships by the Fund during the year under review . That value was 51 per cent as percentage of the total cost.
- (c) The expenditure made on welfare, sports and arts, special projects and local scholarships had increased by 87 per cent, 2700 per cent and 71 per cent as compared to the preceding year and medical and religious activities had declined by 14 per cent and 41 per cent respectively as compared to preceding year.
- (d) A sum of Rs.2,348 Million had been invested during the year under review and the investment valued at Rs. 1,745 Million had been withdrawn. Accordingly, a growth of Rs. 603 Million was shown in the investment value of the year under review as compared to the preceding year.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
<p>(a) When paying for each disease, a total of Rs.57,899,147 had been paid to 136 patients exceeding the limits approved by the Governing Council of the Fund for those diseases . Exceeding of the payment limits for these diseases was 243 per cent as compared to approved limit.</p>	<p>Payments have been made with the special approval of His Excellency the President.</p>	<p>Considering the ability to formulate a system that provides equal opportunities.</p>
<p>(b) The Fund had incurred a sum of Rs.1,019.31 Million to pay for medical assistance during the year under review and a total of Rs. 62,798,411 had been paid for welfare, religious, cultural, educational, sports and arts and special projects. Similarly, a sum of Rs.107,580,000 had also been paid for a scholarship scheme during the year under review and it was a 71 per cent increase in comparison to the</p>	<p>The value of scholarship of the scholarship recipients selected for the scholarships are granted in two installments and as a result of the completion of the payment of both the installments in the year 2017 after verifying the details of the scholarship recipients for the year 2018, this difference has shown</p>	<p>Attention should be drawn to the formulation of a proper and specific payment system.</p>

<p>expenses incurred for the same scholarship scheme in the previous year .</p>	<p>because of the lower cost of scholarship grants in 2018.</p>	
<p>(c) The welfare expenditure of Rs. 26,752,867 mentioned above had consisted of a collection of gracious grants made on 66 occasions with special approval.</p>	<p>The payments made for the welfare activities mentioned have been done with the special approval in relation to the objectives and functions of the President's Fund with the approval of His Excellency the President.</p>	<p>Consider the possibility of formulating of methods that provide equal opportunities focusing on the objectives stated in the Act.</p>
<p>(d) A sum of Rs. 22,545,544 had been incurred from the Fund for special projects and within that, the advance payment of Rs. 20 Million that had made from the Rs.53 Million of estimation for the construction of a Care Center by the Galle Branch of the Sri Lanka Cancer Society had also included and the balance of Rs. 2,545,544 was an expenditure made for the purchase of equipment for the opening of the Giradurukotte Health Promotion and Social Empowerment Center .</p>	<p>The money in the fund can be used for any other purpose for the welfare or benefit of the public in the opinion of the President and the Board of Governors in terms of Section 6 (e) of the President's Fund Act No. 07 of 1978 . Accordingly, payments have been made with the special approval of His Excellency the President as a special project that does not include medical aid, welfare, religious, cultural, educational, sports and arts payments which are made by the President's Fund normally.</p>	<p>The attention should be drawn to get maximum benefits by carrying out adequate follow-up on expenditure made on special projects .</p>
<p>(e) Necessary actions had not been taken in respect of 6,784 or 31 per cent of the total number of requests received for financial assistance during the year 2018 and before, by the date of audit 12 February 2021.</p>	<p>Due to the existing Covid 19 epidemic situation from the year 2020, this has also caused to the closure of office on several occasions and the run with a minimum staff. Arrangements have been made to expedite the payment process by now.</p>	<p>Every effort should be made to respond for distressed applicants promptly.</p>

3.2 Operational Inefficiencies

Audit Observation

The balance after the expense of the Fund from the amount received of the lottery draws, should be remitted by the Lotteries Board to the President's Fund in terms of Section 11 (b) of the Development Lotteries Board Act and a delay of 22 days to 409 days was observed in the remittance of cash so.

Comments of the Management

Because the amount to be remitted is determined after the final accounts are prepared, this delay has occurred.

Recommendation

The attention should be drawn to obtain funds properly.