

## **Api Wenuwen Api Fund - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Api Wenuwen Api Fund for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, and cash flow statement for the year then ended, and notes to 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. 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 paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### **1.2 Basis for Qualified Opinion**

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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**

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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 stability 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 intend 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 Sub Section 16(1) of the National Audit Act No. 19 of 2018, the Fund 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 Responsibility for the Audit of the Financial Statements

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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:

- Identify and assess 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.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude 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. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate 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 Fund has performed according to its powers, functions and duties; and Whether the resources of the Fund 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 the preparation of Financial Statements**

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### **1.5.1 Internal Control over the preparation of financial statements**

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Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### **1.5.2 Accounting Deficiencies**

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Audit Observation -----	Management Comment -----	Recommendation -----
(a) At the end of the year under review the building construction machinery and equipment re-valued to Rs.4,952,742, had been handed over to the Sri Lanka Army and the Sri Lanka Navy without being utilized for the construction activities of the Fund since 2018. Even though, these assets, which are not physically owned to the Fund, were not transferred to the above institutions, and the depreciation expense was also identified considering that the assets are in use. Thus, the depreciation expense identified for the year under review was Rs. 2,532,065.	The Fund not only provides funds but also utilizes the fixed assets held by the 4 <sup>th</sup> Engineer Regiment of the Sri Lanka Army and also provides labour to the needy through the regiment to build complete houses. In such cases, the machines and minor equipment required for construction are provided by the 4 <sup>th</sup> Sri Lanka Engineer Regiment.	Action should be taken to transfer or dispose of unused assets.

### 1.5.3 Documentary Evidences not made available for Audit

Subject	Amount Rs.	Evidence not	Management Comment	Recommendation
Payment of instalments to the selected beneficiaries under the half and fully construction housing project implemented by the Fund.	120,441,658	Documents confirming that the money was received to the 426 beneficiaries selected by the fund during the relevant period.	The money for the beneficiaries are given to the armed forces and the police, and instructions have been given to the armed forces and the police to maintain documents confirming that the money given to each beneficiary has been paid to the relevant people.	A system should be developed to ensure that the money paid has been received by the relevant beneficiaries.

### 1.6 Accounts Receivable and Payable

#### 1.6.1 Receivables

Audit Observation	Management Comment	Recommendation
(a) 57 percent or Rs. 21,267,000 of the total outstanding instalment value of the Ranajayapura housing project as at 31 December 2021 has been in arrears for more than a year. Also, during the year under review, it had not been possible to collect any instalments related to the year from 47 housing beneficiaries.	Regarding the collection of arrears of instalments due from the house beneficiaries of the Ranajayapura housing project on December 31 of the year under review, the relevant departments of the three armed forces have been informed by letters, and arrangements have been made to collect the arrears of instalments promptly in the future.	Action should be taken to the recover arrears instalments as per the agreements.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Financial Regulations 877 (2) (c) and Guidelines 04 as amended by Public Finance Circular No. 01/2020 dated 28 August 2020	In order to be able to review the progress of the Fund at the end of each quarter, a quarterly report of the main functions of the Fund should be prepared and submitted to the Auditor General 15 days before the end of the quarter, but those reports were not submitted for the audit for the year 2021.	I would like to inform that as per the instructions given by the audit, the next quarterly reports will be prepared and submitted to the audit 15 days before the end of the quarter.	Action should be taken as per the Financial Regulations 877 (2) (c) and Guidelines 04 as amended by Public Finance Circular No. 01/2020 dated 28 August 2020.

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| (b) | Financial Regulations 877 (2) (d) as amended by Public finance Circular No. 01/2020 dated 28 August 2020 | Although the Fund was supposed to submit a performance report along with the annual financial statements with a copy to the Public Finance Department to the Auditor General, it had not done so.  | I inform that as per the instructions given by the audit, the Fund will submit a performance report along with the annual financial statements with a copy to the Public Finance Department to the Auditor General.                      | Action should be taken as per the Financial Regulations 877 (2) (d) as amended by Public finance Circular No. 01/2020 dated 28 August 2020. |
| (c) | Financial Regulations 877(1) (c) as amended by Public finance Circular No. 01/2020 dated 28 August 2020. | The Governing Authority of a Fund should prepare the annual budget statement in accordance with the purpose of the Fund and submit it with specific approvals before September 30 for the approval of the General Treasury, but it had not done accordingly. | A budget statement for the year 2021 has been prepared and approved by the Board of Management, and according to Section 877(1)(c) of the Financial Regulations, the budget statements is being approved by the Treasury from next year. | Action should be taken as per the Financial Regulations 877(1) (c) as amended by Public finance Circular No. 01/2020 dated 28 August 2020.  |

## 1.8 Cash Management

----- Audit Observation -----	----- Management Comment -----	----- Recommendation -----
(a) In the fund management savings account maintained by the Fund, a balance ranging from Rs.14.5 million to Rs.60.9 million was maintained in the year 2021 and the excess funds had not been invest in suitable short-term investments.	This money was retained for making payments to the beneficiaries of the housing project on various occasions. Accordingly, only sufficient amount is maintained in the account to pay in each case.	A plan should be prepared for the investment of excess funds by forecasting the cash requirement for the planned functions of the Fund.
(b) A current account maintained by the Fund had average monthly receipts of Rs.51,434 and average monthly payments of Rs.13,434 in the year 2021, but an average monthly balance of Rs.2.1 million was maintained during the year under review.	This account is used to pay the water and electricity bills of the Ranajayapura shopping complex, settle the deposit amount and repair work etc. Therefore, there was no opportunity to use the money in that account in short-term investments.	Action should be taken to the Forecasting cash requirements and invest surplus Funds.

## 2. Financial Review

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### 2.1 Financial Result

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The operating result of the year under review amounted to a surplus of Rs. 26,231,498 and the corresponding deficit in the preceding year amounted to Rs. 49,050,324. Therefore an improvement amounting to Rs. 75,281,822 of the financial result was observed. The reasons for the improvement was mainly due to the decrease in project development costs.

## 3. Operational Review

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### 3.1 Operational Inefficiencies

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	Audit Observation -----	Management Comment -----	Recommendation -----
(a)	The Fund had planned to pay an aid amount of Rs.209,742,767 in 03 instalments for 299 houses during the year under review, under the half housing project. But during the year under review, only Rs. 448,833 was paid as the first instalments for 02 houses and the second and third instalments were not paid for any house. Therefore, the expected financial performance and physical performance as per the annual plans were very minimal.	The partial housing project implemented in the year 2020 lasted until the last quarter of 2021 due to the Covid-19 epidemic situation, so the work related to the housing project for the year 2021 was carried out under difficulties, so the second and third instalments were not paid for any house during the year. Therefore, the expected level of performance could not be reached, and I point out that this situation is not an inefficiency of the project.	Action should be taken to achieve the desired level of financial and physical performance.
(b)	Under the Full Housing Programme, although it was planned to provide assistance of Rs.43,065,000 in 3 instalments for 27 houses during the year under review, only Rs.3,985,000 was paid during the year as 03 instalments for one house, 02 instalments for 02 houses and one instalment for one house. It was at a very low level of 9 percent when comparing with the percentage of the amount planned to be paid during the year.	Due to impose of quarantine curfew in 2020, the construction could not be completed within the relevant period due to difficulties in obtaining building materials and necessary labour. Accordingly, since the above housing project was implemented in the year 2021, it could not reach the expected performance level for the year 2021, and I point out that this situation is not an inefficiency of the project.	Action should be taken to achieve the desired level of performance through the payment of benefits as planned.

#### 4. Accountability and Good Governance

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##### 4.1 Tabling of Annual Performance Report in Parliament

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
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According to Section 11(6) of the ‘Api wenuwen api’ Fund Act No. 06 of 2008, the financial statements and Auditor General's report of the Fund were not tabled in Parliament from the inception of the Fund to the year 2020.	It is informed that as per the instructions given by the audit, the annual financial statements and the Auditor General's report will be tabled in Parliament from the next accounting year.	Action should be taken as per Section 11(6) of the ‘Api wenuwen api’ Fund Act No. 06 of 2008.

##### 4.2 Budgetary Control

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
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According to the paragraph 7 of Guideline No. 04 mentioned in the Financial Regulations 877 (2) (c), the approved budget limits and the actual limits for the year 2021 along with the reasons for variations should have been submitted with the accounts, but it had not been done accordingly.	The approved budgets for the year 2021 has been submitted to the audit, and as indicated by the audit, a budget document is being prepared from the next audit year along with the approved limits and the actual limits and reasons for variations in accordance with the provisions of Financial Regulation 877.	Action should be taken as per the paragraph 7 of Guideline No. 04 mentioned in the Financial Regulations 877 (2) (c).