

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Api Wenuwen Api Fund for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 2022, 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

I expressed qualified opinion 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 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

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 skepticism 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

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to relevant standard	Management Comment	Recommendation
72 units of mechanical hand tools (Hand Drill, Angle Grinders) with a cost of Rs. 1,076,549 which had been purchased by the Fund during the period from 2014 to 2017 but not used as at 31 December 2022 were in manufactured packages. The revaluation values of this equipment's were as Rs.419,600 and its annual depreciation was accounted as Rs.49,700 as at 31December 2022. In accordance with Public Sector Accounting Standard 07 (43), the carrying value of the assets were not reflected in the accounts as the revaluation were carried out without an evaluation of the fair value of these assets.	The revaluation of the machineries are done by a board, and actions are being taken to appoint a board representing the Ministry of Defence and conduct a formal survey in order to represent the fair value in the accounts properly.	According to Public Sector Accounting Standard 07(43), the carrying value of assets should be represented in the accounts.

1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) Though a stock of construction materials including brass hinges, house wiring accessories and other construction materials worth Rs.1,071,546 which was purchased during the period of year 2010 to 2020 for the housing construction projects of the Fund were remained in stored, and the value of the stock had not been identified or accounted. Although the cost of these materials was considered as an expense in the year of purchase, but had not been used at the 31 December 2022, the current assets and accumulated fund as at 31December 2022 were understated by Rs. 1,071,546 each.	The 4th Engineering Service Regiment has sought instructions to take further action on these construction materials and the stocks are to be used for the construction of houses for the beneficiaries of the full housing project in the year 2022/2023 or if they cannot be used, instructions are to be given regarding their disposal. actions are being taken to account correct stock value through journal entries	Assets should be disclosed properly in the accounts.
(b) A project expense of Rs. 266,002 related to the year 2021, which was not recognized as an accrued expense in the year 2021, was paid during the year under review and instead of being debited to the accumulated fund, it was debited to the accrued expenditure account. Accordingly, the accrued expenses were understated by Rs. 266,002 and the accumulated fund was	Corrections are being made through a journal entry as indicated by the audit.	Correct information should be disclosed in the accounting records.

overstated by the same amount as at 31 December 2022.

- (c) A sum of Rs.1,230,951 had been released to an account named "Api Wenuwen Api Fund" of Navy, for carrying out house repairs in the Ranajayapura housing complex, but such repairs had not been done during the year under review. Although the money given to other institutions for incurring future expenses should be accounted as an advance, it was accounted as an expense of the year under review, Hence the repair cost of the year under review was overstated by Rs.1,230,951 and the current assets were understated by the same amount.
- The Board of Management had approved the assessment of the damage caused by the use of the house and entrusting the repair work to the Navy.
- The money given for incurring future expenses should be accounted as an advance and the actual cost should be accounted for after incurring actual repair cost.
- The Navy has been informed to carry out the repair work promptly, and if the repair work is not done properly, the related funds will be recovered.
- (d) The installment amount of Rs.1,168,000 outstanding as at 01 January 2022 from 13 house owners in Ranajayapura was not recovered during the year under review, and it was not included in the outstanding amounts on 31 December 2022. Furthermore, three of those house owners had returned their houses during the year, but the outstanding installments of Rs. 64,000 due on 31 December 2021 had not been collected from them.
- As the abandoned houses, due to the imprisonment of those who acted contrary to military discipline have been taken over and given to other military personnel, they have been removed from the records as they are further documented and shown as arrears of installments, increasing the arrears of Ranajayapura. For that, arrangements have been made to remove those names from the list of Ranajayapura housing beneficiaries on the approval of the Management Board.
- Arrears should be minimized by collecting installments as agreed.

1.5.3 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
Payment of installments to half and full house beneficiaries	128,128,652	Documents confirming that the benefit money was received by 339 of the relevant beneficiaries.	The confirmations will be brought from the respective forces and from the relevant beneficiaries, and there are further reports to be received, and arrangements will be made to submit those reports as soon as they are received.	A system should be developed to ensure that the payments reach the respective beneficiaries on the due date.

1.6. Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Management Comment	Recommendation
(a) The arrears instalments due from Ranajayapura homeowners as at 31 December 2022 were Rs. 42,968,024 and the total of the outstanding for more than two years was Rs. 12,525,000.	There are long term arrears due to suspension of wages at the occasions of delay of pension payments, non-reporting work without leave, desertion, death and imprisonment etc. In such cases, since the entire arrears amount cannot be collected from the salary at once, a board will be appointed to look into this and overcome the deficit in the future, and further work will be done according to the recommendations of the board.	Arrangements should be made to recover the arrears as per the agreement.
(b) The due revenue from transmission towers as at 31 December 2022 was Rs. 37,098,064 and according to the agreement, though the rental for the previous month was to be paid within the next month, the rent amounting to Rs.3,624,589 was outstanding for more than 03 months.	After recovering the arrears from the total tower income due as at 31.12.2022, the further arrears to be recovered from Sri Lanka Telecom (Mobitel Exchange) for 03 months is Rs. 3,624,589. Further inform that the relevant communication agency has been informed through letters to collect the arrears of tower revenue.	According to the agreement, rental income should be collected and directed to proper investments.
(c) As at 31December 2022, the outstanding rental income of Ranajayapura Shopping Complex was Rs. 297,260. According to the agreement, the monthly rent should be paid in the relevant month, but there was an outstanding amount of Rs.223,760 related to the previous year.	The relevant persons have been informed through the Ranajayapura Administrative Office to recover the arrears of rental income, and steps are being taken to recover it promptly.	As per the agreement, the monthly rent should be collected within the respective month.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 09 of the Api Wenuwen Api Fund Act No. 06 of 2008.	An account shall be maintained by the and at the Central Bank of Sri Lanka in the name of the "Api Wenuwen Api Fund" and the money's paid in to the Fund under section 7 shall be credited to the said account. Though it had not been maintained such account at the Central	As per the approval of the Board of Management, an account will be opened in the Central Bank of Sri Lanka.	Should be act as Section 09 of the Api Wenuwen Api Fund Act No. 06 of 2008.

bank and 06 current accounts had maintained as 04 accounts in two state banks and 02 accounts in a private bank.

- | | | | | |
|-----|---|--|---|--|
| (b) | Financial Regulations 877(1) (c) and (d) as amended by the Public Finance Circular No. 01/2020 dated 28 August 2020. | The administration of a Fund should prepare the annual budget in accordance with the objective of the Fund and submit the approval of the General Treasury and though it was emphasized that no expenditure should be incurred without an approved budget, had not acted accordingly. | The budget for the year 2022 has not been submitted to the Treasury for approval. Treasury approval has been received for the budget of 2023. Since the operations of 2022 and 2023 are being carried out jointly, the budget for 2022 will be included in 2023. | Should be act as Financial Regulations 877(1)(c) and (d) as amended by Public Finance Circular No. 01/2020 dated 28 August 2020. |
| (c) | Financial Regulations 877(2)(c) and Guideline No 04 as amended by Public Finance Circular No. 01/2020 dated 28 August 2020. | At the end of each quarter, so that the progress of the Fund can be reviewed, a quarterly report on the main functions of the Fund should be prepared and submitted to the Auditor General with a copy to the Public Finance Department and the National Budget Department 15 days before the end of the quarter, but the reports for year 2022 had not been submitted to the audit. | At the end of each quarter, the progress review reports of the Fund have been forwarded to the Planning Division of the Ministry of Defence and in accordance with the revised Financial Regulations 877(2) (c), quarterly reports are also being submitted to the Auditor General. | Should be act as Financial Regulations 877(2)(c) and Guideline 04 as amended by Public Finance Circular No. 01/2020 dated 28 August 2020 . |
| (d) | 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 to the Auditor General with a copy to the State Finance Department, it had not done so. | It is inform that the performance report along with the financial statements will be submitted to the Auditor General with copies to the State Finance Department. | Should be act as Financial Regulations 877(2)(c) and Guideline 04 as amended by Public Finance Circular No. 01/2020 dated 28 August 2020. |

1.8 Financial Management

Audit Observation	Management Comment	Recommendation
(a) In the fund management savings account maintained by the Fund, a balance in the range of Rs.3 million to Rs. 24 million was maintained in the year 2022 and recognizing the working capital needs of the Fund, the excess funds were not used in short-term investments that would have higher returns.	It is the need of any business/organization to retain some amount for working capital requirements, without which it is difficult to carry out day-to-day operations. But I point out that financial excesses/deficiencies may occur due to the uncertainties that may arise in an overall unpredictable business and organizational environment.	The financial requirement for the planned functions of the Fund should be predicted and accordingly a financial requirement plan should be prepared.
(b) A balance of donations amounting to Rs. 901,898 which received from the year 2018 to the year 2022 had remained in 03 current accounts maintained for receiving public donations. No payments were made from these accounts during that period and this donation money had not been used in effective investment.	As indicated by the audit, the money will be withdrawn and invested in a fixed deposit of the “Api Wenuwen Api” Fund, in order to maintain minimum cash balances in these accounts.	Effective fund management should be maintained.

1.9 Investment Management

Audit Observation	Management Comment	Recommendation
An excess cash balance of around Rs.2.8 million had maintained idle in a current account belonging to the Fund, between December 2021 and 15 September 2022. Although interest rates of investments have increased during the month of May 2022, only 2.5 million rupees of this excess amount was delayed till September 15, 2022 to be invested in a fixed deposit. As a result, an estimated investment interest income of Rs. 281,527 had been lost.	Actions are being taken to invest excess money in the future, while maintaining a minimum balance.	Actions should be taken to invest the excess funds while predicting the financial needs.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 398,875,766 and the corresponding surplus in the preceding year amounted to Rs. 26,231,498. Accordingly, an increase of Rs. 372,644,268 of the financial result was observed. This growth was mainly due to a 96 percent reduction in project development costs in 2022 and a 228 percent increase in investment income due to rising interest rates.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation

According to the decision of the Board of Governors of the Fund in the year 2022, it was planned to provide housing assistance for 25 full houses and 350 half houses subject to maximum of Rs. 300 Million. On 27 September 2022, the Board of Governors approved the housing grant of 30 full houses and 400 half houses for both the years 2022 and 2023 due to the inability to implement the first plan.

However, a formal action plan was not prepared showing the time frame, program stages, responsible officers and desired goals for the implementation of this housing assistance program.

Management Comment

The approval of the 2022 action plan was delayed until 11 April 2022. Actions are being taken to present formal action plan in the coming year, indicating the time frame, program phases and the responsible officers and expected goals or the methods of selecting the parties who qualify for this, as per the instructions given by the audit.

Recommendation

Being prepared a formal action plan based on the approved budget and should be implemented on time.

3.2 Operational Inefficiencies

Audit Observation

- (a) According to the first plan, although it was planned to provide housing assistance subject to maximum of Rs. 300 Million during the year under review, Rs.7,351,078 had paid as partial housing assistance to only 11 beneficiaries who selected by the requests submitted to the Public day of the Defence Ministry. Accordingly, the financial performance of the year under review was at a minimum level of 2.3 percent.

Management Comment

The Board of Goveners has advised and approved to combine the years 2022 and 2023 and offer benefits from one project in the year 2023.

Recommendation

The expected level of financial performance should be achieved through the payment of benefits as planned.

- | | | |
|--|---|---|
| <p>(b) Even though it was planned to pay Rs.252 million for 299 half houses and 27 full houses in the previous year, installments of Rs. 17,264,681 to be paid for 36 half houses installments and 18 full houses installments had been remained as at 31 December 2022.</p> | <p>The housing projects carried out in relation to the year 2021 could not be completed in that year due to the covid 19 epidemic and economic crisis in the country.</p> | <p>The expected level of financial performance should be achieved through the payment of benefits as planned.</p> |
|--|---|---|

3.3 Transactions of Contentious Nature

Audit Observation	Management Comment	Recommendation
<p>It is observed that Rs. 32,086,845 paid as half house premiums and related administrative expenses for the members of the Sri Lanka Air Force were credited to an account maintained under the name of "Central Welfare and Rehabilitation Fund". Since the account was not confirmed to be an official account of the Sri Lanka Air Force, the release of the Fund's allocation to such an unofficial account was problematic in the audit.</p>	<p>The Ministry has informed to credit the beneficiary money of Sri Lanka Air Force to the "Central Welfare and Rehabilitation Fund". Accordingly, the benefit money has been credited to the above account.</p> <p>It is informed that after making inquiries from the Air Force and if it is not an official account, the management board will pay attention to remit the money to an official account.</p>	<p>It is recommended to release money to an account with full confirmation that it is accountable for government funds.</p>

3.4 Idle or underutilized property, plant and equipment

Audit Observation	Management Comment	Recommendation
<p>(a) At the end of the year under review, the fixed assets and minor tools were revaluated as Rs. 3,556,299 and the depreciation for the year was identified as Rs 1,396,443. But since the Fund provides funds for the construction of houses from the year 2018, these assets were underutilized for the functions of the Fund and were under the custody of the Sri Lanka Army and it was also observed that some assets were used by the Army for the activities of other institutions that are not the functions of the Fund.</p>	<p>The 4th Engineer Service Regiment has been instructed to use the assets under the custody of the Army purchased to build houses from the year 2018 for the full house project and to appoint a committee to dispose of unusable construction materials.</p>	<p>The assets of the Fund shall be utilized for the functions of the Fund.</p>
<p>(b) A backhoe loader (Skid Steer Loader) with the purchase cost of Rs. 4,150,000 had accounted as Rs. 985,210 as at 31December 2022, but the parties who used the asset in the last 03 years had not disclosed and were not physically verified by the Board of Survey. Hence the existence and the security</p>	<p>The Skid Steel Loader, which has been handed over to the Navy, has not been accepted by the 4th Engineer Service Regiment due to the lack of need for the machine.</p> <p>However, this Ministry has</p>	<p>The existence and the security of the assets should be verified.</p>

of the asset could not be verified by the audit. Further, according to the management board decision dated 31 October 2019, this asset should remain in the custody of the 4th Engineer Service Regiment, but the decision had not been implemented by the end of the year under review.

requested approval to use the said machine for the construction carried out by the Navy, and it is scheduled to be submitted to the management board.

4. Accountability and Good Governance

4.1 Tabling of Annual Performance Report in Parliament

Audit Observation	Management Comment	Recommendation
According to paragraph 6 (b) of Guideline No. 04 of Financial Regulations 877(2)(c) as amended, by the Public Finance Circular No.01/2020 dated 28 August 2020, Although financial statements should be and presented in trilingual, financial statements for the year 2022 had prepared only in Sinhala language.	It was not possible to submit the financial statements in the other two languages due to lack of time to translate them into Tamil and English. It is informed that in the future financial statements will be presented in trilingual.	Action Should be done according to Paragraph 6 (b) of Guideline No. 04 of Financial Regulations 877(2)(c).

4.2 Tabling of Annual Performance Report in Parliament

Audit Observation	Management Comment	Recommendation
In accordance with Section 11(6) of the Api Wenuwen Api Fund Act No 06 of 2008, actions had not been taken to table the financial statements and the Auditor General's report of the Fund in the Parliament from the beginning of the Fund up to the year 2021.	It is informed that the financial statements of the fund and the Auditor General's report will be tabled in Parliament in the coming accounting year.	Action Should be done according to Section 11(6) of the Api Wenuwen Api Fund Act No 06 of 2008.