

## **1 Financial Statements**

### **1.1 Qualified Opinion**

The audit of the financial statements of the National Defence Fund for the year ended 31 December 2023 comprising the statement of comprehensive income as at 31 December 2023 and the statement of changes in net assets, cash flow statement for the year then ended and notes to the financial statements, including material accounting policy 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 the National Audit Act No. 19 of 2018 and the provisions of the Finance Act No. 38 of 1971. My comments and observations which I consider should be presented in 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 Fund as at 31 December 2023, and of its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

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

Based on the matters described in Paragraph 1.5 of this report, I express a qualified opinion on the financial statements.

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 this 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 the Sri Lanka Public Sector Accounting Principle, 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 financial reporting process of the Fund. 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.

## 1.4 Auditor's Responsibility in Auditing 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:

- Designed and performed the appropriate audit procedures, identified and assessed the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- Obtained 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 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. 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.
- 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 Fund has performed according to its powers, functions and duties, and whether the resources have been procured and utilized economically, efficiently and effectively within the timeframes and in compliance with the applicable laws.

## 1.5 Audit Observation on the preparation of Financial Statements

### 1.5.1 Internal Control on the preparation of Financial Statements

The entity is required to maintain a well-designed 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

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	As the interest income on fixed deposits for the year had been accounted to the net value deducting the withholding tax, the interest income of the year under review had been understated by Rs.8,703,412 in the account. Also, the revelations about the withholding tax of Rs. 8,703,412 that had been levied on the interest income of the year under review had not been made through the accounts.	The net value related to the fixed deposits of the fund has accounted as interest income. The withholding tax value of Rs. 8,703,412 that was collected has been shown by Annexure 01 of the Financial Statements.  The actions will be taken to show the withholding tax in the profit/loss account within the next accounting year.	As per the Cabinet Decision dated 25 October 2017 and the Inland Revenue Act No.24 of 2017, the accountings should be done so as to be compatible with tax activities.
(b)	The interest income of Rs.7,016,714 received in relation to 04 fixed deposits realized within the year under review and the fund management account had not been revealed as incomes from operation activities in the cash flow statement and had been shown as withdrawals of fixed deposits.	Although the interest income was earned from the investment of the surplus money of the fund, the said earnings are not a major function according to the objectives of the National Defense Fund. Therefore, the interest income has been included as investment activities.	As per paragraph 8 of Public Sector Accounting Standard 2, the main income generation activities should be considered as operation activities.

### 1.5.3 Absence of written evidence for the audit

<b>Item</b>	<b>Amount Rs .</b>	<b>Audit Evidence not provided</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Payment of housing aids	11, 666,809	The payment of housing assistance installments to the selected beneficiaries under the partially	The confirmation reports related to the installment amounts issued are still being	The proceedings should be done in accordance with the Financial Regulation

constructed housing received and will be 264 (1) and the receipt  
 assistance project presented to the audit of the gross amount  
 implemented by the fund immediately after the mentioned in the  
 had been done by the three receipt of the voucher should be  
 armed forces and the police confirmation reports. confirmed by a receipt  
 to which the beneficiaries for each payment.  
 belong. Accordingly, the  
 evidences were not  
 presented to the audit to  
 prove that the housing  
 assistance of Rs. 11,666,809  
 from the funds released to  
 the Armed Forces and the  
 Police during the year under  
 review to make payments to  
 the beneficiaries was  
 received by the respective  
 beneficiaries.

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

Reference to Laws, Rules and Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulation 877 (1)(c) as amended by Public Finance Circular 01/2020	Although the budget for the upcoming year of a statutory fund should be prepared in accordance with the objectives of that fund and submitted for the approval to the General Treasury before 30 September of the current year with the approval of the Secretary of the relevant Ministry, the budget for the year 2023 of the fund had been submitted for approval with a delay of 34 days.	The budget was noted to be submitted for the approval of the General Treasury before 30 September of that year.	The proceedings should be done as per the Public Finance Circular.
(b) Paragraph 6 (b) of Guideline No. 04 stated in Finance Regulations 877(2)(c) as amended by Public Finance Circular 01/2020.	Although the financial statements should be prepared and presented in three languages, the financial statements of the year 2023 had been presented only in Sinhala language.	The Financial statements will be presented in three languages from the next financial year.	The proceedings should be done according to Guideline No. 04 stated in 877(2) (c) of the amended Financial Regulations.

- (c) Section 91 of the Inland Revenue Act No. 24 of 2017. As it had been decided that there was no provision to exempt the fund from the income tax by the Cabinet Decision No. CP/ 17/2287/703/085 dated 25 October 2017, the proceedings had not been done regarding that matter as per the provisions of Section 91 of the Inland Revenue Act No. 24 of 2017 although there is a tax liability regarding income of the fund. Although a Cabinet Memorandum was presented to exempt the fund from the income tax, the approval has not been received thereto. The proceedings should be done according to the provisions of Section 91 of the Inland Revenue Act No. 24 of 2017.

## 1.7 Investment Management

### Audit Observation

Although the surplus money can be used for the short-term investments, the instances of investments made for the periods less than a month (07 days) was observed while there was sufficient cash balance for the working capital requirements of the fund, and a minimal interest income had been received for that. However, the requirements of utilizing those investments within periods not less than 01 month had not been arisen.

### Comments of the Management Recommendation

The 07-day fixed deposits were not required to be utilized due to the delay in constructions. It was noted to make investments up to the maximum effectiveness.

A program should be implemented to invest the surplus funds effectively.

## 2. Financial Review

### 2.1 Financial Results

The operation result of the year under review was a deficit of Rs. 40,365,301 and the corresponding deficit of the preceding year was Rs. 17,189,698. Accordingly, a decline of Rs. 23,175,603 was observed in the Financial Result. The increase in the payment of half housing benefits by 66 percent compared to the previous year had been the main cause of this deterioration.

## 3. Operation Review

### 3.1 Operation Inefficiencies

#### Audit Observation

- (a) Although it was planned to complete the payment of Rs.174 million for 174 Ranaviru beneficiaries in the year 2023 under Methsewana project, the final installment amounting to a total of Rs. 27,228,619 for 79 housing beneficiaries had not been paid even by 31 December 2023.

#### Comments of the Management

There was a delay in paying third installment due to the delay in construction. The actions will be taken in future to enter into agreement with a specific deadline to complete the constructions and to pay the installments as planned.

#### Recommendation

The proceedings should be done to achieve the expected targets planned for the year.

- ( b ) The programs had not been planned even in the action plan of the year under review for the task related to promoting and ensuring national security in accordance with the objectives of the Act except for the payment of benefits to the members and families of the armed forces who were injured or died while engaged in their duties as per the Section 09 of the National Defense Fund Act No. 09 of 1985.
- When the future programs are planned, it will be presented to the Board of Directors of the Fund for information in relation to the promotion and assurance of the national security.
- The plans should be prepared to fulfill the basic objectives stipulated in the Fund Act.

#### **4. Accountability and Good Governance**

##### **4.1 Tabling the Annual Performance Report in the Parliament**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Although the financial statements and the Auditor General's reports should be tabled in the Parliament as per the Section 13 of the National Defense Fund Act No. 9 of 1985, the financial statements and the Auditor General's reports related to the years 2018 to 2021 of the fund had not been tabled in the Parliament.	Since the National Defense Fund was under the Ministry of Finance until the year 2017, the actions will be taken by this Ministry to table the reports in the Parliament once the report related to that year is tabled.	The proceedings should be carried out in accordance with Section 13 of the National Defense Fund Act No. 9 of 1985.