

## **National Defence 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 National Defence Fund for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, statement of changes in net assets 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. 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 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.

#### **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' 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
Under the Virusisu Pradeepa Program, during the year under review, the fund had opened savings accounts of Rs.25,000 each to 136 children who passed the five-year scholarship examination in 2019, and for this purpose, a commercial bank had contributed Rs.1,360,000 for each student of Rs.10,000 but this donation had not disclosed in the accounts.	DFCC bank directly opened bank accounts for the scholarship winners and deposited the money and the money was not received or paid from the Fund. Accordingly, it is not shown in the accounts. However, such donations will be included in the financial statements through a note in the future.	Donations should be disclosed in the accounts.

**1.5.3 Documentary Evidences not made available for Audit**

	Subject	Amount (Rs.)	Evidence not	Management Comment	Recommendation
(a)	Administrative expenses of the housing project	2,849,687	01 percent of the total housing assistance amount or Rs.2,849,687 was released to the accounts of the armed forces and the police during the year under review as the administrative expenses of the Meth Sevana Half Housing Project implemented by the Fund, but not disclosed the actual expenditure or its nature incurred during the year.	The governing board has approved the provision of administrative expenses for fuel, vehicle rental and stationery expenses incurred by the three armed forces and the Sri Lanka Police in relation to the project. Actions are being taken to call a report regarding the administrative expenses given to the each forces in future.	A system should be developed to identify and record the actual administrative costs incurred.
(b)	Payment of the housing assistance premiums	68,192,020	An amount of Rs.68,192,020 had released to the accounts of the Armed Forces and Police in the year under review to be released to 288 beneficiaries selected by the Fund, but the documents confirming that the money was paid to the beneficiaries within the relevant period had not submitted to the audit.	It can be obtained through evaluation papers that the financial allocations of the Fund have been given to the beneficiaries and arrangements are being made to obtain a document confirming that the financial provisions have been properly paid to the beneficiaries by the respective forces.	A system should be prepared to confirm the receipt of aid money from the relevant beneficiaries.

**1.6 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 Circular Guide No. 04 as amended by Public Finance Circular No. 01/2020 dated	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	Informed that the quarterly report on the main functions of the Fund will be submitted as scheduled.	Action should be taken as per Finance Regulations 877 (2) (c) and circular guidelines 04

August 28, 2020. 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.

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| (b) | Financial Regulations 756 | Although it had been informed that the Gem-studded ivory camel image with an assessed value of Rs.2,890,415 belonging to the Fund is present in the President's Office, it had not been subjected to annual verification. | It was also noted that a confirmation of the presence of the Gem-studded ivory camel image in the Presidential Secretariat is to be obtained annually from the Presidential Secretariat and also that's verification annually. | Action should be taken as per Finance Regulations 756. |
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### 1.7 Cash Management

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Audit Observation -----	Management Comment -----	Recommendation -----
In the current account No. 51001 maintained by the Fund at the Central Bank, an average monthly balance of Rs.3,910,317 was maintained in the year 2021 and a balance exceeding Rs.10 million was continuously maintained for more than 03 months. The excess money had not been used in an effective investment opportunity.	Arrangements are being made to obtain approval for the effective investment of surplus money in the current account of the National Defense Fund.	Action should be taken to determine the need of money for the planned functions of the fund and to invest the surplus money.

### 1.8 Investment Management

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Audit Observation -----	Management Comment -----	Recommendation -----
It was observed that the estimated minimum interest income lost to the Fund was Rs.3,494,141 due to delay of reinvestment of two fixed deposits belonging to the Fund 45 days and 37 days after maturity.	The reinvestment of fixed deposits was delayed due to the revision of the scope of the ministry, the work of the Fund under a new staff and the need to re-register the staff for banking activities. Efforts will be made to minimize delays in the future.	Action should be taken to make investments economically and get optimum investment returns according to a specific pre-plan.

## 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 deficit of Rs.34,987,345 and the corresponding deficit in the preceding year amounted to Rs.79,023,742. Therefore an improvement amounting to Rs. 44,036,397 of the financial result was observed. The reason for the improvement was mainly due to a 56 percent reduction in “Meth Sewana” housing benefit payments compared to the previous year.

## 3. Operational Review

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### 3.1 Operational Inefficiencies

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	Audit Observation	Management Comment	Recommendation
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(a)	Under the Methsewana project, for the year 2021, it was planned to pay Rs.105,980,000 for 150 war hero beneficiaries but the Fund had failed to pay any instalment during the year 2021.	Due to the delay in the payment of benefits in the year 2020, the implementation of the half house project in the year 2021 was delayed.	Action should be taken as per the annual action plan.
(b)	The awarding of scholarships of Rs.25,000 each to 137 children of dead and disabled soldiers who passed the five-year scholarship examination in 2019 was delayed for almost 15 months and Furthermore, although it was planned to end the work of awarding scholarships to 130 children who passed the five-year scholarship examination in 2020 on June 30, 2021, it was still not possible to provide scholarships by 25 April 2022.	Due to the covid-19 epidemic situation in the country, it was not possible to provide scholarships to the children of war heroes who passed the five-year scholarship examination in 2019 during the year 2020. Arrangements will be made to carry out the scholarship award for the year 2020 as soon as possible..	Action should be taken as per the annual action plan.

#### 4. Accountability and Good Governance

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

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Audit Observation	Management Comment	Recommendation
According to Section 13 of the National Defence Fund Act No. 9 of 1985, the financial statements and Auditor General's reports related to the years 2018 to 2020 of the Fund had not been tabled in Parliament.	Kindly inform you that the National Defence Fund's 2018 and 2019 year-end Auditor General's Summary Reports have been directed to be translated and that further steps will be taken as soon as the language translation is done.	It should be done in accordance with Section 13 of the National Defence Fund Act No. 9 of 1985.

##### 4.2 Budgetary Control

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Audit Observation	Management Comment	Recommendation
According to Section 877(1)(c) of the Finance Regulations as amended by Public Finance Circular No. 01/2020 dated August 28, 2020, the governing authority of a Fund should prepare the annual budget in accordance with the purpose of the Fund and submit it for the approval of the General Treasury with specific approvals, but it had not been done accordingly.	The Annual Budget for the year 2021 has been approved by the Board of Governors and has not been approved by the Treasury. It is informed that the approval of the Treasury has been obtained for the annual budget document for the year 2022.	Action should be as per the Section 877(1)(c) of the Finance Regulations as amended by Public Finance Circular No. 01/2020 dated 28 August 2020