

Mahapola Higher Education Scholarship Trust Fund - 2017

The audit of financial statements of the Mahapola Higher Education Scholarship Trust Fund for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of financial performance, cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 10(4) of the Mahapola Higher Education Scholarship Trust Fund Act, No. 66 of 1981. My comments and observations which I consider should be published with the Annual Report of the Trust Fund appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on audit conducted in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI-1000-1810).

1.4 Basis for Disclaimer Opinion

Because of the results of the matters described in paragraph 2.2 of this report, I have not been able to decide whether there was a need for any adjustment related to subjects and elements recorded or not recorded in statement of financial position, statement of financial performance and cash flow statement.

2. Financial Statements

2.1 Disclaimer Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Consolidated Financial Statements

The consolidated financial statements with wholly owned subsidiary companies of the Trust Fund such as National Wealth Corporation and Natwealth Securities since year 2013 had not been prepared and furnished to audit. Further no any disclosure had been made in the financial statements regarding non-preparation of group accounts by amalgamating the financial statements of the Fund with the financial statements of the National Lotteries Board having fifty per cent share ownership.

2.2.2 Sri Lanka Accounting Standards

The following observations are made.

- (a) According to the chapter 4.56 of the Conceptual Framework for Financial Reporting, the entity should be prepared its financial statements as per Historical Cost or other basis and that basis should be disclosed in financial statements. The basis of preparation of financial statements had not been disclosed by the Trust Fund.
- (b) Sri Lanka Financial Reporting Standards No.07

 - (i) According to the paragraph 8 of the Standards, even though the caring value of assets and liabilities should be classified and shown in the Statement of Financial Position or Note to the accounts, action had not been taken by the Trust Fund accordingly.
 - (ii) Even though the disclosures should be made relating to management of financial risk according to the paragraphs 31 and 33 of the Standards, the action had not been taken by the Trust Fund accordingly.
- (c) Sri Lanka Accounting Standards No. 01

 - (i) The Statement of Changes of Equity had not been furnished with the financial statements by the Trust Fund according to the paragraph 10(c) of the Standards.
 - (ii) The financial assets of the Fund amounting to Rs. 9,861,439,390 had not been identified separately as Non-Current Asset and Current Assets according to paragraph 60 of the Standards.
 - (iii) Even though the Income and Expenditure Accounts should be prepared on the classification based as per nature and functions of the institute according to paragraph 99 of the Standard, the action had not been taken accordingly.

(d) Sri Lanka Accounting Standards No.16

Even though the Property Plant and Equipment should be accounted at the cost in the time of it qualifies for recognition according to the paragraph 15 of the Standard, it had been accounted at book value.

(e) Sri Lanka Accounting Standards No.18

Even though the interest should be calculated as per effective interest rate according to the paragraph 30 (j) of the Standard, the interest had been calculated at accrued basis by the Trust Fund.

(f) Sri Lanka Accounting Standards No.24

The related party transactions should be disclosed according to the paragraph 25 and 26 of the Standard, action had not been taken accordingly to disclosed by the Fund.

(g) Sri Lanka Accounting Standards No.39

Relating to the Investment Portfolio manage by the National Wealth Corporation Company, according to the accounts furnished by that company, the debit balances such as Treasury Bonds amounting to Rs. 3,525,437,950, Re-sell of Rs.738,287,267, Fixed Deposits of Rs. 1,128,829,462, Debentures of Rs.1,111,305,960, Assets Back Trust Certificates amounting to Rs.221,626,055, Commercial Papers amounting to Rs. 621,358,828, Treasury Bonds and Bills amounting to Rs. 999,230,273 and Rs. 253,937 of Current Account balance and the credit balance of Repurchase amounting to Rs.1,251,037 had not been classified and shown in the Statement of Financial Position of the Trust Fund according to paragraph 45 of the Standards. Further the basis of recovery of these investments had not been disclosed in the financial statements.

(h) Sri Lanka Accounting Standards No.40

The 25 acres Land situated in Malabe was accounted at Rs.12,460,179 in year 2005 own by the Trust Fund had given on rent basis to Sri Lanka Institute of Information Technology (SLIIT) had not been accounted separately as a property of the institute as per paragraph 5 of the Standard. Similarly these properties also had not been disclosed in the financial statements by valued at present value.

2.2.3 Accounting Deficiencies -----

The following observations are made.

- (a) Even though the interest income of the fixed deposit relating to the year under review was Rs.6,186,038, the interest income had been overstated by Rs.11,138,390 during the year under review due to the total interest income received including income also relevant to the previous year amounting to Rs.17,324,428 were record in the financial performance statement.

- (b) The income amounting to Rs. 166,815,345 receivables to the Trust Fund as profit share of Development Lotteries Board from Presidential Fund for the year under review according to the Development Lotteries Board Act, had not been accounted.

2.3 Accounts Receivable and Payable

A sum totalling Rs. 3,832,874 to be paid from School Development Fund on behalf of the constructions were carried out on several schools are being carried forward in the financial statements since 2013 without being taken any action.

3. Financial Review

3.1 Financial Result

According to the financial statements furnished, the financial result of the Trust Fund for the year ended 31 December 2017 was a deficit of Rs.227,539,892 and the corresponding surplus of the preceding year amounted to Rs.240,528,891 thus indicating a deterioration in financial result for the year under review by Rs.468,068,783 relatively. Non-received of profit share to be received from Development Lotteries Board relating to the year under review mainly attributed to it.

The analysis on financial result for the year under review with 5 preceding years had revealed that a continuous surplus occurred since year 2012 to year 2016 and had occurred a deficit in the year under review. However, considering remuneration and depreciation for non-current assets, the contribution of Rs.688,827,839 in year 2012 had been improved up to Rs.1,086,213,752 and continuously deteriorated from that date and the contribution of the year under review had a negative value of Rs.164,859,366.

4. Operating Review

4.1 Performance

4.1.1 Planning

The goals expected to be attained had not been shown as financial and quantitative values in the Corporate Plan was prepared relating to the period of year 2014-2017 by the Trust Fund and the progress couldn't be checked due to non-preparation of Action Plan and the progress reports base on that.

4.1.2 Performance and Review

The attention had not been paid by the Fund during the year under review for achievement of objectives such as establishment and management of schools, institutions, foundations and such other institutions engaging in the education.

4.2 Management Activities

Although the Trust Fund had received the authority to hold lotteries and accept grants, prizes or donations from local or foreign sources or from materials with the approval of the Government to make money according to the Section 6.2(a), (c) and (d) of the Act of the Trust Fund, action were not taken to provide funds from such a way and a sum of Rs.308,807,761 withdrawn from investments had made in Treasury Bonds during the year under review and it had been used to pay the bursaries.

4.3 Transections in Contentious Nature

The approval was given through Cabinet Paper No. 98/995/11/052 dated 08 July 1998 to establish an information technology institution from the contribution of the Trust Fund with the goal of opening higher educational gateways in the field of information technology for students who can't be entered in to the Universities. Accordingly, it was decided at the meeting held on 28 January 1999 under the patronage of the Secretary to the Ministry of Internal and International Commerce affairs to establish an organization of Sri Lanka Institute of Information Technology (Guarantee) Limited for interim activities and at the end of the interim period, it was decided to take that organization under preview of the University of Moratuwa. Accordingly, the Sri Lanka Institute of Information Technology (Guarantee) Limited has incorporated including the name "Sri Lanka" under the Companies Act No. 17 of 1982 and the Mahapola Higher Education scholarships Trust Fund was entrusted with the responsibility of providing resources compiling the required funds for it. The observations in that connection are given below.

- (a) According to the agreement entered with the Sri Lanka Institute of Information Technology (Guarantee) Limited as at 19 March 2003, the University which is being established in a 25 acres land area belonging to the Trust Fund in Malabe had transferred to that company to 8 years period for management. The Trust Fund had entered an agreement again with Sri Lanka Institute of Information Technology (Guarantee) Limited before laps of that agreement period in 14 November 2005 and in this case, the following terms and conditions were beneficial to the Trust Fund that was agreed in the initial agreement had been removed and amended.

Removed Terms

- (i) Section 4(e) – All assets and revenues of Mahapola Higher Education Scholarship Trust Fund should not be used directly or indirectly for any other commercial purpose that is not consistent with the objectives of the Trust Fund or other branches of the Sri Lanka Institute of Information Technology (SLIIT).
- (ii) Section 4(f) – All activities being done for improvement of the University should be conducted with the consent of the Trust Fund.
- (iii) Section 4(g) – Collection of revenues receive from conduct of educational courses and incur expenditure need for the benefit of the University is the liability of the Sri Lanka Institute of Information Technology (SLIIT).

- (iv) Section 4(j) – The Sri Lanka Institute of Information Technology (SLIIT) should know that the Trust Fund has obtained a substantial loan from the National Development Bank (NDB) for the purpose of setting up the university and the Sri Lanka Institute of Information Technology (SLIIT) assures that every effort will be made to pay premiums when the institution is financially viable.
- (v) Section 4(k) – The Board of Trustees has the right to appoint qualified teams of highly skilled and qualified staff to evaluate the new introductory courses and the right to appoint an independent group of skilled managers and auditors to check and evaluate the management and accounts of the university.
- (vi) Section 4(l) – According to the decision of the Board of Trustees, naming the Malabe Campus as the Mahapola Campus, naming the new auditorium as the Lalith Athulathmudali Auditorium and display these name boards clearly in the premise should be done.
- (vii) Section 4(m) – The assets which were financed by the Trust Fund must be existed as property of the Trust Fund in the event of end of this agreement due to time out or any other way.

Amended Terms

- (viii) The surplus revenue generate through the activities of the university after deducting of agreed management fees should be credited to the Trust Fund before 30 June in the ensuing year and other investment should not be done without the prior approval of the Board of Trustees of the Trust Fund according to Section 4 (i) of the legal agreement dated 19 March 2003. However it could be requested approval of the Board of Trustees of the Trust Fund by the board of directors of the Sri Lanka Institute of Information Technology (SLIIT) for maintain a reserves account for future development of the university and it had decided to rent the premise own by the Trust Fund through the new agreement on rent basis to the Sri Lanka Institute of Information Technology (SLIIT) instead of need money for such development activities can be provided from this reserve account by the Fund. It was agreed that to be paid higher value from both value such as annual rent income of Rs. 8 million as per Section 5(a)(i) or 20 per cent of annual net profit of the Sri Lanka Institute of Information Technology.
- (ix) According to the Section 4(h) of the agreement was made on 19 March 2003 between Trust Fund and the Sri Lanka Institute of Information Technology, the right to recommend about development procedures relating to universities was directed to the Board of Trustees and all activities done for betterment of the university should be done on the consent of the Trust Fund. According to the Sections 4(e) and 4(f) of the second agreement was made among Trust Fund and the Sri Lanka Institute of Information Technology (SLIIT) on 14 November 2005, it was agreed that the operational activities of this university

are done as per decision of its Board of Director, prepare circulars accordingly, arrangement for conduct examinations, enrollment of students, employment of academic staff, management and maintenance of infrastructure facilities on the order of the Board of Director of Sri Lanka Institute of Information Technology (SLIIT) and the major constructions only should be made under the approval of the Trust Fund.

- (b) It was entered to two agreements on 12 May 2015 as in between Mahapola Higher Education Trust Fund and Sri Lanka Information Technology (Guarantee) Company on behalf of the land of the Sri Lanka Institute of Information Technology (SLIIT) had built and the money give back to the Fund equaling to the value of investment expenditure of Rs.373,579,392 were made in Sri Lanka Information Technology (Guarantee) Company by the Mahapola Higher Education Trust Fund and to establish the Sri Lanka Information Technology (Guarantee) Company as independent organization separate from Trust Fund.

The favourable conditions to the Trust Fund that are established from initial agreement entered on 19 March 2003 and agreement entered on 14 November 2005 were further removed through above two agreements and the following new conditions had been included.

- (i) A sum of Rs. 408,500,000 will be given to Trust Fund for cover a sum of Rs. 373,579,392 as value of investments made by the Trust Fund, the value of scholarships given in the name of Mahapola and other incidental expenses. After that there will be no any financial interest in between Mahapola Fund and the Sri Lanka Institute of Information Technology (SLIIT). The Sri Lanka Institute of Information Technology (SLIIT) will be acting as independent organization from Mahapola Fund.
- (ii) The Sri Lanka Institute of Information Technology (SLIIT) will not be surrendered to any Accounting Standards, Sri Lanka Financial Reporting Standards or International Accounting Standards and released from the requirements such as submit of accounts to the Mahapola Fund or consolidate the accounts since year 2015/2016.
- (iii) Lease out the land of the Sri Lanka Institute of Information Technology (SLIIT) situated in Malabe for 60 years period since 15 May 2015 to 14 May 2075 in the basis of increase the annual lease rent once every 5 years and accordingly it will bind to be paid lease as Rs.20 million annually for 5 years ended on 14 May 2020 and Rs.40 million annually for 5 years ended since 15 March 2070 to 14 March 2075.
- (iv) It will not needed any written consent of the Mahapola Fund to mortgage, sub lease the land or a part of it situated in Malabe was leased to Sri Lanka Institute of Information Technology (SLIIT) owned by the Mahapola Fund.
- (v) The approval was given to the Sri Lanka Institute of Information Technology (SLIIT) to the activities such as to building constructions in the relevant land

premise, fixing machineries or reconstruction, improvement of the land by their own expenditure.

- (c) According to the agreement was signed on 14 November 2005, it had signed a new lease agreement with the company on 12 May 2015 despite the lease in arrears as at 12 May 2015 was Rs. 98,642,356 and the lease amounting to Rs.45,358,379 could have obtained to the Trust Fund in year 2015 as per initial agreement had reduced up to Rs. 20,000,000 as per conditions of the new agreement. Even though enter in to such disadvantaged agreements to the Trust Fund relating to the Sri Lanka Institute of Information Technology was established by a Cabinet decision should be done by an approval of the Cabinet, it had not been done accordingly.
- (d) According to the Cabinet decision No. CP/17/0956/701/011 dated 04 May 2017, an approval had been given to recognized the state-owned assets of Sri Lanka Institute of Information Technology (SLIIT) as an independent decision-making entity, which does not belong to the government and to remove the name of this institute from gazette notification relating to assign duties of the Ministers as it does not purview under any Ministry.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the draft annual report and the financial statements should be furnished to the Auditor General within 60 days from the close of the financial year accordance with Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, financial statements for the year 2017 had been furnished to the Auditor General on 02 April 2018.

5.2 Internal Audit

An Internal Audit Unit had not been established in terms of Financial Regulation 133 of the Democratic Socialist Republic of Sri Lanka and the Management Audit Circular No. DMA/2009(1) of 09 June 2009 and the transactions and operations of the Fund were not included in the Internal Audit Plan of the Ministry and an audit had not been carried out even by that unit.

5.3 Procurement and Contract Process

5.3.1 Procurement

According to the Section 6(2)(d) of the Mahapola Higher Education Scholarship Trust Fund Act No. 66 of 1981, the “Mangatha Lottery” had been relaunched on 30 July 2013 on approval of the Cabinet paper No. 13/0773/540/008 dated 11 July 2013 with the intent to raise funds need to achieve the objectives of the Fund. The following observations are made in this connections.

- (a) The possibility had not been found out to implementing this lottery through National Lotteries Board and the Development Lotteries Board established as per two Parliament Acts when implementing of the Mangatha lottery.
- (b) Action had been taken to implement the lottery through a private organization by the institute and the following observations are made in this connection.
 - (i) Although a special committee named “Committee of Mahapola Lotteries” had been appointed on 12 July 2012 by the Trust Fund consist of five members as per proposal of the Minister of Co-operative and Internal Trade for selection of investor for implementing the lottery by investing Rs. 6 billion under first and second stage, a Technical Evaluation Committee had not been appointed as per paragraph 2.7.2(b) of the Procurement Guideline.
 - (ii) The Standard Bidding Documents had not been used to invitation for bids as per paragraph 5.3.1 of the Procurement Guideline and the used bidding documents had not been checked and approved by a Technical Evaluation Committee due to non-appointment of a Technical Evaluation Committee.
 - (iii) Even though at least 21 days period should be given to furnish the bids as per paragraph 6.2.2 of the Procurement Guideline, only 10 days period had been given to it and the number of bids received had limit to 03.
 - (iv) The bid comparison only had been done by the Lotteries Committee without a detailed bid evaluation process due to the lack of a Bid Evaluation Committee. According to the paragraph 5.3.2 of the Procurement Guideline, even though the qualification such as “Direct eligibility ” should be included to the requirements of invitation to bids, it was not included, one bid had been rejected out of three bids were presented by referring to whether clear information were not furnished.
 - (v) According to the paragraph 7.12 of the Procurement Guideline, whereas all bids received can be rejected when lack of effective competition is clearly evident, without doing so, a foreigner who is a main investor of a company which was furnished a bid had been evaluated instead of evaluating a company which was furnished a bid without consider other resources, financial position and experience contrary to the paragraph 7.10 of the Procurement Guideline. Further the implementation of lotteries had not shown as a goal when registering the relevant company.
 - (vi) According to the paragraph 8.9.1 of the Procurement Guideline, even though a formal contract agreement should be prepared by the procuring entity, the agreement had been prepared by the selected bidder. Therefore, there was no transparency in the operations and performance of the Lottery due to removal of facts such as 6,8,9,14,15,16,17 and 20 of the “Basic Operation Guide for the Implementation of Mahapola Lottery” from the agreement.
 - (vii) According to the paragraph 7.1(b) of the contract agreement, it should be paid installments on or before the date of commencement of the quarter by

the contracted company. If not, it should be informed in writing to the contractor by the Trust Fund within 90 days from that date and the agreement should be cancelled within 14 days since then. However, whereas the payments were arrears from 05 May 2015, it was not informed in writing by the Trust Fund. Accordingly, the agreement had cancelled on 15 September 2016 without being cancelled on 17 August 2015, the date of the agreement due to be cancelled. Hence opportunity had been given to a private company to earn abnormal profit by using the name of Mahapola more than a year. Similarly the outstanding balance as at that date was Rs. 673,913,043.

- (c) For selection of a suitable place to maintaining an office for the Trust Fund, a newspaper advertisement had been published in English language, acknowledge the bid closing date as 14 May 2016 by disbursed a sum of Rs. 38,761 without mentioned the nature of requirement. Whereas according to the written requisition of the Trust Fund on 09 May 2016, the bid for monthly rent of Rs. 274,500 furnished by J.R. Jayawardene Centre on 18 May 2016 had been accepted. Accordingly a sum of Rs. 294,000 had to be overpaid annually more than the value of rejected bid received as per paper advertisement. Further it was observed that the decisions are taken by only one Director and a Trustee and acknowledge to other members on decisions to be taken by the Board of Trustee.

06. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Trust Fund from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls -----	Observations -----
(a) Internal control	Failure in recruit an officer to the post of Accountant.
(b) Investment of Funds	Failure in obtaining proper approval for investments and failure in evaluate investment benefits.
(c) Procurement	Failure in accordance with Procurement Guideline, Procurement Manual and Procurement Plan.