

Mahapola Higher Education Scholarship Trust Fund – 2020

1 Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Mahapola Higher Education Scholarship Trust Fund for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity 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 accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 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 ability 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 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 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 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 Internal Control over the preparation of financial statements.

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 Non- Compliance with Sri Lanka Accounting Standards.

Non – compliance with the reference to particular standard	Management Comment	Recommendation
-----	-----	-----
(a) In terms of the Sri Lanka Accounting Standards paragraph 49 of No. 08, even though the nature and amount in respect of the earlier adjustments should be disclosed with the financial statements, total adjustments of Rs.3,735,852 which were made earlier adjusted had not been disclosed .	Agreed	Should be compliance with the Sri Lanka Accounting Standards.
(b) Although the transactions with the related parties should be stated in the financial statements in terms paragraph 25 and 26 of SriLanka Accounting Standard	Agreed	Should be compliance with the Sri Lanka Accounting Standards.

Number 24, Mahapola Higher Education Scholarship Trust Fund had not revealed its transactions with its related parties, National wealth Corporation Ltd, NatWealth Securities Ltd. and Sri Lanka Lotteries Board.

- | | | | |
|-----|---|--------|---|
| (c) | Although Financial assets, its depreciated cost, fair value through other comprehensive income, fair value through profit or loss should be stated category wise in the financial statements in terms of the paragraph 4.1.1 of Sri Lanka Accounting Standard 09, financial assets amounting Rs. 5,586,821,233 had not been stated in that way. | Agreed | Should be compliance with the Sri Lanka Accounting Standards. |
|-----|---|--------|---|

1.5.3 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) Consolidated Financial Statements of National Wealth Corporation Ltd and NatWealth Securities Ltd which are two subsidiaries with the sole ownership of the Trust Fund had not been prepared and submitted for auditing from 2013 to the year under review.	Consolidated accounts were not prepared for the year 2020 because of these companies were not active throughout the year 2020, but it was handed over to an audit firm to prepare consolidated accounts for these two companies from 2013 to 2019. After the completion will take actions to submit the consolidated accounts immediately for auditing.	Consolidated Financial Statements should be prepared and submitted for auditing.
(b) The land owned by the MTF in the extent of 25 Acres and located in Malabe which was entered in the accounts to the value of Rs. 12,460,179 in 2005 had not been assessed to the present value and entered in the books. Further the building value had been stated as Rs.1,064,520,695 in financial statements by the trust fund	Rs. 373 million had been spent for the construction of the SLIIT institution located at Malabe. Net asset value (Land, Building equipment) in the accounts of the SLIIT institution as at 31 st of December 2015 had been taken to the account books and because of the SLIIT institution is an asset of Mahapola thus accounting was	Land should be valued and taken into books.

done. These assets of the institution were unable to revalue and taken in to books during the year under review due to not offering required facilities by the SLIIT institution.

- | | | |
|---|---|--|
| <p>(c) According to the letter No. PS/PA/5/36/vol-iv/2021 of the president fund dated 17th March 2021, the profit share of the trust fund from the DLB profit related to the year under review was Rs. 1,305,156,751. But it was stated in the financial statement as Rs. 1,262,598,395. Therefore the amount of Rs. 42,558,356 was understated.</p> | <p>Although the balance confirmation was requested by the president's fund at the time of the preparation of the accounts for the year 2020, the confirmation was received on 25th of March 2021 according to the letter dated 17th March 2021. Therefore, the Mahapola Fund had prepared the final accounts and submitted them for audit. However the relevant adjustments will be made during the year 2021 according to the balance confirmation letter.</p> | <p>Relevant income to the year under review should be correctly identified and accounted.</p> |
| <p>(d) As informed by the president fund as at 31 December 2020, the receivables deficit share of profit from Development Lotteries Board was 262,149,615. But the financial statement was stated as Rs 109, 302,245, the amount of Rs 152,847,370 was understated.</p> | <p>Agreed.</p> | <p>Deficit profit share of the year under review should be correctly identified and accounted.</p> |
| <p>(e) The interest income on fixed deposits for the year under review was Rs. 296,318,766. But it was stated in the financial statements as Rs. 287,876,625, the amount of Rs.8,442,141 was understated.</p> | <p>Fixed deposit income Rs. 296,318,766 is incorrect and currently accounted Rs. 287,876,625 is correct.</p> | <p>Fixed deposit interest should be correctly calculated and accounted.</p> |

1.6 Accounts receivable and Payable

1.6.1 Payable

Audit Observation -----	Management Comment -----	Recommendation -----
<p>The total amount of expenses which should be paid from the school development fund for the construction work carried out in</p>	<p>The school development construction activities were carried out by a company established</p>	<p>Required actions should be taken immediately.</p>

several school were Rs 3,832,875. This had been mentioned in the financial statement since 2013 and no action had been taken in this regard during the year under review.

under the Sathosa and all the bill settlements were done through that entity . However to settle the amount of Rs. 3,832,875 specified as payables , relevant bills and the request by the contractors have not been submitted yet .Accordingly the settlement of these bills has been delayed.

1.7 Cash Management

Audit Observation

Management Comment

Recommendation

- | | | | |
|-----|--|---|---|
| (a) | Nevertheless the Investment Committee of the Trust Fund makes decisions in respect of the portfolio, it was observed that Bank of Ceylon had been paid a fee of Rs. 2,592,000/- for that task. | Cabinet had decided to submit a memorandum to obtain the facility without a payment in the future | Cash should be managed in a proper way. |
| (b) | An audit was conducted by the private institution to calculate the current value of National Wealth Corporation Ltd and Natwealth Securities Ltd. Even though those companies had to pay Rs. 3,769,451/- as audit fee, Rs. 1,744,249/- as legal fee and Rs. 60,000/- as liquidation fee , these fees were paid by the Trust Fund during the year under review. Further, the Fund accounted as receivable but the companies had not been accounted in the accounts as an expense which is to be paid. | Such an audit was done because the companies had been previously decided to be sold. | Those expenses should be borne by those institutions. |

2 Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus Rs. 1,085,347,967 and the corresponding surplus in the preceding year amounted to Rs. 755,972,796. Therefore an improvement amounting to Rs. 329,375,171 of the financial result was observed. The main reason for the improvement is that increase of Rs.265,251,785 from Development lottery income.

3 Operational Review

3.1 Uneconomic transactions

Audit Observation	Management Comment	Recommendation
An amount of Rs.791 Mn. was due from Organic Game Pvt. Ltd. in respect of the online lottery which had been cancelled on 15 th September 2016. Court proceedings on this matters are being carried out in the Supreme Court and an amount of Rs. 2,344,514/- had been paid as fee for legal advice.	The case is pending in the supreme court. The trial is not over. This shows the legal advisory fee for the year under review	Actions should be taken to complete the litigation proceedings immediately

3.2 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) As per the agreements entered on 14 th November 2005 and 12 th May 2015 and the approval for the Cabinet Memorandum submitted by HE the President in 2017, the ownership of the SLIIT borne by the Trust Fund was rescinded and an investigation is in process in the Commission to investigate Bribery or Corruption stating that the agreement signed in 2015 was unlawful. Further, having concluded the investigation in this regard conducted by the Special Presidential Commission for Inquiry, the report had been submitted to the Parliament and as stated at the Committee on Public Enterprises (COPE) held on 08 th January 2021 a report on the ownership of SLIIT of the Mahapola Trust Fund had been submitted for debate at Parliament. However, the value of the land owned by the Mahapola Fund where SLIIT has been located couldn't be assessed. The present Governing Board of the SLIIT was called for a discussion in this regard and they have informed their unwillingness to participate it in writing.	Agreed	Required actions should be taken immediately.

- | | | | |
|-----|---|---|---|
| (b) | As per the Cabinet Memorandum No. CP/20/1367/313/011 dated 28 th February 2021, it was decided to liquidate National Wealth Corporation Ltd which is a subsidiary of MTF and owns an amount of Rs.985,500,070 share capital and NatWealth Securities Ltd which is the primary dealer of the Central Bank of Sri Lanka due to their long lasting losses. Accordingly, it had been scheduled to terminate service of their employees on 28 th February 2021 and to compensate them. However, recommendation of the COPE held on 08 th January 2021 was temporarily liquidating of these companies until the court proceedings and the investigations at the Criminal Investigation Department and the Commission to Investigate Bribery or Corruption will be concluded. The MTF replied that liquidation as per the cabinet decision will not be an obstacle for the other related affairs. Accordingly appointing of a liquidator was stopped. | Agreed | Required steps should be taken immediately |
| (c) | Although the action plan stated , those activities had not been implemented. Amendment of the development lotteries board act, Opening a printed lottery called Mahapola, Appointing super markets and Sathosa markets as agencies to transfer 60 percent of the development lotteries board profit to the trust fund and to transfer the profit share directly to the Mahapola fund. | Due to the Covid-19 pandemic situation these work were delayed and now keep on doing | Action should be taken to accomplish within that time frame as planned. |
| (d) | As mentioned in the action plan, that Sri Lanka Telecom, Mobitel, Dialog companies jointly appointed themselves as agencies and started an online lottery and setup a computer unit in development lotteries board, but no such thing had been done. | Due to the Covid-19 pandemic situation these work were delayed and now keep on doing. | Action should be taken to accomplish within that time frame as planned. |
| (e) | Though the plan stated, the online payment system would be start up for both local and foreign recipients to donate their donations directly to the trust fund, this was not done. | Due to the Covid-19 pandemic situation these work were delayed and now keep on doing. | Action should be taken to accomplish within that time frame as planned. |

- | | | | |
|-----|---|---|---|
| (f) | Although the action plan stated that the scholarships would be provided to low-income students studying in non-university higher education institutions through the establishment of a scholarship fund or a public sponsorship scholarship fund with the contribution of a philanthropist, this had not been done. | Due to the Covid-19 pandemic situation these work were delayed and now keep on doing. | Action should be taken to accomplish within that time frame as planned. |
|-----|---|---|---|

3.3 Procurement

Audit Observation	Management Comment	Recommendation
As per the 4.2 paragraph of the government procurement guideline, every procurement entity should have to prepare a procurement plan and at least three years expected procurement activities should be listed in main procurement plan. However, the Fund had not prepared the Procurement Plan.	A plan has been prepared and submitted regarding the procurement activities of the Mahapola Fund for the next 3 years from 2020.	Must comply with Section 4.2 of the Government Procurement Guideline.

4 Accountability and good governance

4.1 Internal Audit

Audit Observation	Management Comment	Recommendation
-----	-----	-----
According to the No.133 financial regulation of the Democratic Socialist Republic of Sri Lanka and Circular No. DMA / 2009 /(1) dated 09 June 2009 an Internal Audit Unit was not been established and the Line Ministry's internal audit has not done any audit regarding the Fund's transactions and operations.	Action will be taken to establish an internal audit unit in the future.	Must act in accordance with the circulars and be audited by the Internal Audit Unit of the Ministry.