

## **Natwealth Securities Limited - 2020**

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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 Natwealth Securities Limited (“Company”) 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. 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 Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **Emphasis of Matter**

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I draw attention to Note 1.2 to the financial statements. As stated in the above note, the Company’s parent undertaking and controlling party is Mahapola Higher Education Scholarship Trust Fund (MHESTF) which is operated by Government of Sri Lanka. The Cabinet of Ministers at its meeting held on 28th August 2018 has taken a decision to liquidate the National Wealth Corporation Limited and sell the NatWealth Securities Limited to another investor under the approval of Central Bank of Sri Lanka.

However, a fresh Cabinet Memorandum dated 26<sup>th</sup> February 2020 has been submitted to amend the above cabinet decision as to sell only 49 percent share capital of NatWealth Securities Limited and to suspend the liquidation of National wealth Corporation Limited until the restructuring process of NatWealth Securities Limited is completed. However, on 12<sup>th</sup> October 2020 another cabinet decision has been taken to liquidate both companies of National Wealth Corporation Limited and NatWealth Securities Limited.

The Monetary Board of the Central Bank of Sri Lanka (CBSL) has suspended the company from carrying on the business and activities of the Primary Dealer for a period of six months with effect from 31<sup>st</sup> May 2020. Subsequently the Board of Directors of the company decided to withdraw the Primary Dealer license with effect from 01<sup>st</sup> December 2020 in line with the cabinet decision taken on 12<sup>th</sup> October 2020 to liquidate the both companies. By considering the decision of the Board of Directors the Monetary Board of the Central Bank of Sri Lanka decided to withdraw the appointment granted to NWSL to functions as a Primary Dealer with effect from 01<sup>st</sup> December 2020. My report is not modified in respect of these matters.

## **1.2 Basis for Qualified Opinion**

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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**

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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 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

## **1.4 Audit Scope**

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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 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 Company’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 Company’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 Company 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company 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 Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
According to LKAS 24, if the Company has related party transaction during the period covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. The Mahapola High Education Scholarship Trust Fund is a related party of Natwealth Securities Limited, the amount of Rs.5.57 million payable to the Trust Fund for due diligence audit and other payment had not been shown in the notes to the financial statements.	The transaction and related party relationship will be disclosed in the next financial year as per LKAS -24	The company should comply with standards.

### 1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) The Company has received an income tax assessment for the year of assessment 2008/2009, 2009/2010, 2010/2011, 2011/2012, 2013/2014, 2014/2015, 2015/2016 and 2017/2018 to the value of Rs.24,136,857, Rs.77,382,317, Rs.84,378,708, Rs.66,181,759, Rs.18,288,933, Rs.113,687,212, Rs.36,466,487 and Rs.11,058,742 respectively from the Department of Inland Revenue and as per the Inland Revenue Act, No. 24 of 2017 NWSL is liable for income tax. However it had not been shown as payable in the financial statements.	Payable Income tax and value added tax of the company (NWSL) were not taken to books of accounts in the current year (2020) and previous years due to the unclear provision in the income tax and VAT Act, still two cases in appeal court and 5 cases in the tax appeal commission are hearing. As the cabinet decided to liquidate the company (NWSL), the Board of Directors decided to settle all the tax liabilities with waving the penalties. Accordingly the Board of Directors had a discussion with the Commissioner General of Inland	The company should take necessary adjustments in the financial statement.
(b) The Company had received notice of Value Added Tax assessments from the Department of Inland Revenue	Revenue and the CGIR has given his consent for the settlements. Therefore, once the final agreement	The company should take necessary adjustments in the

amounting to Rs.16,600,601 and reached with the Department of financial statement. Rs.58,097,943 for the year 2013 and Inland Revenue all the due taxes 2014 respectively. However it had not will be taken in to the books of been settled and shown as payable in accounts by the year 2021. the financial statement.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted a profit of Rs.51,127,270 and the corresponding profit in the preceding year amounted to Rs.224,420,525. Therefore a deterioration amounting to Rs. 173,293,255 of the financial result was observed. The reasons for the deterioration are decrease in investment income by Rs.150,164,969 and gain from revaluation of dealing securities by 162,901,677.

### 2.2 Trend Analysis of major Income and Expenditure items

- (a) Interest expense of Rs.1,309,341 for the year 2020 in comparison to the preceding year Interest expense of Rs.119,096,047 thus showing a decrease of 98.8 percent in interest expense of the company.
- (b) Loss from revaluation of dealing securities of Rs.10,887,052 for the year 2020 as compared with the preceding year of Gain from revaluation of dealing securities of Rs.152,014,625 thus showing an decrease of 107 percent in revaluation of dealing securities.

## 3. Operational Review

### 3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Monetary Board of Central Bank of Sri Lanka decided to revoke the suspension of business and activities of the Company as a primary dealer for a period of six month with the conditions of complete the ownership restructuring plan of the Company and the progress of the implementation to be reported to the central bank monthly until the completion of restructuring plan, Restriction of the Board of Directors to resign from the board until the restructuring is completed, Company complying with all	The company was unable to comply with the conditions because the company was unable to proceed with the expected restructuring plan due to the prevailing situation in the county	The company should take necessary action on time.

relevant laws, regulations and guidelines at all time and effectively participating in primary and secondary market transaction in government securities and rectification of supervisory concerns raised at on-site examination.

However, the Company had failed to comply with the conditions and the Company is suspended from carrying business activities as a primary dealer.

- (b) The Company had made a complaint in the Criminal Investigation Department (CID) during the year 2016 in respect of payment of Rs.19,725,000 as unauthorized brokerage fees to two Companies in year 2014 and no decision had been received even as at 30 September 2021.
- CID investigation continues and the company has appointed a legal adviser to facilitate to the CID.
- It is recommended to take an immediate action about this matter.
- (c) The Company had revealed irregular transaction were done by the former CEO and former chief Dealer of the Company along with two companies namely Trillion Securities (Pvt) Ltd, and Virtual Investment & Trading Lanka (Pvt) Ltd. The Trillion Securities (Pvt) Ltd had filed a case against the company and the judgment had received on 02 November 2018. According to the high court judgment, the company has to pay a sum of Rs.53,830,745 to Trillion Securities (Pvt) Ltd along with the interest rate of 14 percentages per annum from 25 July 2014 and recover a sum of Rs.72,519 along with the interest rate of 14 percentages per annum from 31 July 2014. But it had not been settled even as at 30 September 2021.
- According to the liquidation committee recommendation and the approval of the Board of Directors and the Board of Trustees of Mahapola Trust Fund the final settlement of Rs.95mn has been paid and settles the liability on 29<sup>th</sup> of June 2021.
- The company should take necessary action on time.