

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nat Wealth Securities Limited (“Company”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Emphasis of Matter

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

However, a fresh Cabinet Memorandum dated 26 February 2020 has been submitted to amend the above cabinet decision as to sell only 49 percent share capital of Nat Wealth Securities Limited and to suspend the liquidation of National Wealth Corporation Limited until the restructuring process of Nat Wealth Securities Limited is completed. However, on 26 October 2020 another cabinet decision has been taken to liquidate both companies of National Wealth Corporation Limited and Nat Wealth 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 May 2020. Subsequently the Board of Directors of the Company decided to withdraw the Primary Dealer license with effect from 01 December 2020 in line with the cabinet decision taken on 26 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 Nat Wealth Securities Limited to functions as a Primary Dealer with effect from 01 December 2020. My report is not modified in respect of these matters.

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 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 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 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 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard-	Management Comment	Recommendation
Contrary to paragraph No 42 of Sri Lanka Accounting Standard on Accounting Policies, Changes in Accounting Estimates and Errors (LKAS 08) ,the Company has	AS NWSL filed tax returns as per the provision of the income tax act that primary dealer (PD) are not liable for income tax on secondary market transaction but DIR not accepted it and	The standard should be followed.

accounted an Income Tax Liability of Rs.304,536,754 relevant to 2009/2010, 2010/2011, 2011/2012, 2013/2014, 2014/2015 and 2015/2016, and a Value Added Tax liability of Rs.100,895,298 relevant to 2013, 2014 and 2017/2018 during the year under review.

keep on issuing the assessment for each year from 2014 onwards. The company filed the returns on the above basis and the tax liability was calculated as receivables NWSL. The final action made an appeal in TAC and cases were continued 4 to 5 years. Therefore, all these receivable were shown in the financial statements as receivables for 4 to 5 years.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
Rs.5,573,700 worth of legal and other professional fees relevant to the year 2020 had been accounted under administrative expense for the year under review.	Agreed	Expenses incurred for previous years should not be accounted as the expenses of the year under review.

1.5.3 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
Repo Investments	94,304	Deposit certificates	This will be unidentified balance. The Board of Directors will be decided to write off from the accounts as the company is call for liquidation.	Documents to confirm the balance should be maintained.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
The advance payment made on assets amounting to Rs.515,100 receivable over a period of 03 years and tax receivable amounting to Rs.62,035,884 over a period of 05 years had not been recovered.	The advance payment will be taken to accounts in the year 2022 and changes to P&L in the year 2022 The total outstanding liability was settled. Then the entire tax receivable to be write as 50% penalty waved by the Department of inland revenue	Actions should be taken to recover the balances without delay.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.17,945,416 and the corresponding profit in the preceding year amounted to Rs. 51,121,270. Therefore a deterioration amounting to Rs.69,066,686 of the financial result was observed. The main reasons for the deterioration are decrease in net investment income by 58,665,927 and increase of .finance cost by Rs. 40,847,253 against decrease of administration cost by Rs.18,596,905 .

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The Trillion Securities (Pvt) Ltd had filed a legal case in Commercial High Courts against the Nat wealth Securities Ltd in 2015 due to the default of repurchase transaction made by the Company. The actual liability to the Trillion Securities (Pvt) Ltd as at 31 December 2020 was Rs.54,152,747 and according to the given judgement, the Company had paid Rs.95,000,000 and settled the total liability against the Trillion Securities Ltd on 29 June 2021.	- Agreed	Necessary actions should be taken in a timely manner in order to avoid the losses for the Company .
(b) The actual liability was Rs.35,265,606 against the Virtual Investments & Trading Lanka (Pvt) Ltd had been shown in the financial statements from the year 2014. In the year 2022	Agreed	-do-

the Virtual Investment Company had informed the Nat Wealth Securities Ltd to pay and settle the total outstanding REPO liability of Rs.325,000,000 in 03 installments.

- (c) The 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 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 was failed to comply with the conditions and the Company was suspended from carrying business activities as a primary dealer.

Agreed

The Company should comply with the conditions prescribed by the relevant authorities.