

## **Mahapola Higher Education Scholarship Trust Fund – 2013**

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The audit of financial statements of the Mahapola Higher Education Scholarship Trust Fund for the year ended 31 December 2013 comprising the balance sheet as at 31 December 2013 and the income and expenditure account, the statement of changes in funds 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. Owing to the delay in presenting the financial statements for the year ended as at 31 December 2013, the report of the Auditor General relating to the transactions, had been issued to the Chairman of the Fund on 19 August 2017. 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**

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The 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**

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My responsibility is to express an opinion on these financial statements based on the 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 of Opinion**

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As a result of the matters described in paragraphs 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the balance sheet and the income and expenditure account, and statement of changes in funds

## **2. Financial Statements**

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### **2.1 Disclaimer of Opinion**

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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

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### 2.2.1 Consolidated Financial Statements

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The financial statements had not been prepared and presented to Audit since the year 2013 in consolidation with Sri Lanka Institute of Information Technology (SLIIT) established as a company Limited by Guarantee in which the Board of Directors had been appointed ex officio and the Trust Fund had invested a capital of Rs. 373,500,000, and the subsidiary companies of the Trust Fund named, National Wealth Corporation and Natwealth Securities. Furthermore, no any disclosure whatsoever had been made in the financial statements relating to the failure in preparing the accounts of the Group by consolidating the financial statements of the Development Lotteries Board of which 50 per cent of shares had been owned by the Trust Fund , and the financial statements of the Trust Fund.

### 2.2.2 Sri Lanka Accounting Standards

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The following observations are made.

- (a.) According to Chapter 4.56 of the Conceptual Framework for Financial Reporting, an entity should prepare its financial statements on the basis of historical cost, or any other basis, and that basis should be disclosed in the financial statements. Nevertheless, the Trust Fund had not disclosed the basis on which the financial statements had been prepared.
- (b.) Sri Lanka Financial Reporting Standard 07
 

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  - (i.) According to Paragraph 08 of the Standard, the carrying amount of financial assets and liabilities should be disclosed in the statement of financial position or in the notes. However, the Fund had not done so.
  - (ii.) Disclosures had not been made by the Fund on the “management of financial risks” in terms of Paragraphs 31 and 33 of the Standard.
- (c.) Sri Lanka Accounting Standard 01
 

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  - (i.) The Trust Fund had not furnished the cash flow statement along with the financial statements in terms of Paragraph 10 (d) of the Standard.
  - (ii.) An entity shall present comparative information in respect of the preceding period for all amounts reported in the current period’s financial statements in terms of Paragraph 38 of the Standard. Nevertheless, the Trust had not presented the comparative information in the notes to the accounts.
  - (iii.) In terms of Paragraph 57 of the Standard, the accumulated fund and the net surplus should be shown under liabilities in the balance sheet according to the nature of the institute. However, it had been improperly shown as non-current liabilities.

(iv.) The assets worth Rs. 7,246,937,352 belonging to the Fund, had not been separately identified as non-current assets, and current assets in terms of Paragraph 60 of the Standard.

(v.) Income and expenditure account should be prepared under the basis of activities and nature of expenditure of the institution in terms of Paragraph 99 of the Standard. However, it had not been done so.

(d.) Sri Lanka Accounting Standard 16

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The Property, Plant and Equipment had been accounted to the book value instead of being accounted under the cost at the time of being identified in terms of Paragraph 15 of the Standard.

(e.) Sri Lanka Accounting Standard 18

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The interest should be computed at the effective rate in terms of Paragraph 30 (l) of the Standard, but the Trust had computed interest on accrual basis.

(f.) Sri Lanka Accounting Standard 24

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The transactions entered into with the connected parties should be disclosed in terms of Paragraphs 25 and 26 of the Standard, but the Trust Fund had not done so.

(g.) Sri Lanka Accounting Standard 39

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The debit balances such as, Treasury bonds worth at Rs. 3,521,676,877 existed in accordance with the accounts presented by the National Wealth Corporation Limited with respect to investment portfolio being managed by the said company, resales amounting to Rs. 49,012,292, preference shares valued at Rs. 200,000,000, debentures valued at Rs. 202,619,400, Asset Back Trust Certificates valued at Rs. 51,833,875, fixed deposits valued at Rs. 1,951,872,259, and the balance in the current account amounting to Rs. 31,816, along with the resales debit balance of Rs. 112,209,454, had not been shown in the balance sheet of the Trust Fund after being classified in terms of Paragraph 45 of the Standard. Furthermore, the basis of evaluating those investments had not been disclosed in the financial statements as well.

(h.) Sri Lanka Accounting Standard 40

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The 25 acre land in Malambe belonging to the Trust Fund that had been accounted to the value of Rs. 12,460,179 in the year 2005 and given on lease to the Sri Lanka Institute of Information Technology, had not separately been brought to accounts as a property of the institution in terms of Paragraph 05 of the Standard. Moreover, the said property had not been assessed to the present value and disclosed in the financial statements as well.

### 2.2.3 Accounting Deficiencies

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The following observations are made.

- a) The payable gratuity worth Rs. 755,855 that should have been brought to accounts under non-current liabilities, had been shown under current liabilities.
- b) Dividends and prior year adjustments valued at Rs. 52,427,445 had been included in the income and expenditure account instead of being adjusted to the statement of changes in equity.
- c) Lease rents totalling Rs. 79,493,672 receivable from the SLIIT relating to the period from the year 2005 up to the year under review, had not been brought to accounts by the Trust Fund.
- d) Bonus shares worth Rs. 100,000,000 issued by a subsidy company of the Trust Fund even before the year 2013, had not been brought into the financial statements of the Trust Fund.
- e) According to the Development Lotteries Board Act, the profit of the Fund from the Development Lotteries Board, amounted to Rs. 958,404,171 relating to the year under review. But, that sum had been understated by Rs. 62,148,671 in the financial statements, thus showing a sum of Rs. 896,255,500.
- f) According to the ledger account, the balance in the fixed deposit of the School Development Fund amounted to Rs. 643,248,361 as at the end of the year under review. That sum had been understated by Rs. 322,248,361 in the statement of financial position thus showing the value of Rs. 321,000,000.

### 2.2.4 Lack of Evidence for Audit

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The journal notes relating to adjustments amounting to Rs. 640,854,313 made to the surplus of the preceding year as being the effect of amendments done on the opening balances of 04 ledger accounts, had not been made available to Audit.

### 2.3 Unexplained Differences

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The balance of the Mahapola investment portfolio for the year under review being managed by the National Wealth Corporation, amounted to Rs. 5,864,837,065 as per the account presented by the said company with respect to the Mahapola investment portfolio. However, the said value amounted to Rs. 5,860,541,686 in accordance with the statement of financial position presented by the Mahapola Higher Education Scholarship Trust Fund, thus indicating an unexplained difference of Rs. 4,295,379.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Fund for the year under review had been a surplus of Rs. 1,079,677,832 as compared with the surplus of Rs.682,470,162 for the preceding year. An improvement of Rs. 397,207,670 in the financial result of the year under review was indicated as compared with the preceding year. The said improvement had mainly been attributed by the increase in the revenue by a sum of Rs. 335,594,239 as compared with the preceding year.

The analysis on the financial results of the year under review and the preceding year indicated a net surplus in the years 2012, and 2013. When the employee remuneration and depreciation on non-current assets had been adjusted to the financial result, the contribution of the year 2012 amounting to Rs. 688,827,839 had improved up to Rs. 1,086,213,752 in the year under review.

### **4. Operating Review**

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#### **4.1 Performance**

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##### **4.1.1 Planning**

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Financial and quantitative values relating to the targets expected to be achieved as per the Corporate Plan prepared by the Trust Fund for the period 2012 – 2015, had not been indicated. As an Action Plan and progress reports based thereon had not been prepared, the progress could not be examined.

##### **4.1.2 Functionality and Review**

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The total of the income received by the Trust Fund in the year under review through the interest on investment and Development Lotteries Board, amounted to Rs. 1,677 million, and only a sum of Rs. 620 million indicating 37 per cent therefrom, had been spent on granting 15,000 Mahapola scholarships, an objective of the Trust Fund. Attention had not been brought on utilizing the balance on the other objectives of the Trust Fund. The excess funds had been invested, and the value of investments totalled Rs. 1,065 million as at the end of the year under review.

#### **4.2 Transactions of Contentious Nature**

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With the objective of providing higher educational facilities in the field of Information Technology for the students failing to enter the universities, approval had been granted through the Cabinet Paper, No. 98/995/11/052, dated 08 July 1998 to establish an Information Technology institution with the contribution of the Trust Fund. As such, it had been decided at the meeting held in the Ministry of Internal and International Commerce that Sri Lanka Institute of Information Technology (limited by guarantee) be established in transition, and

that institution be taken over by the University of Moratuwa at the end of the transitional period. Accordingly, the Sri Lanka Institute of Information Technology had been established as a company limited by guarantee in terms of the Companies Act, No. 17 of 1982 by including the term “Sri Lanka” as well by entrusting the Mahapola Higher Education Scholarship Trust Fund with the responsibility of providing resources and funds. The matters observed in that connection, are as follows.

- a) The said Company had been entrusted to manage the University established at the 25 acre land in Malambe in terms of the agreement entered into between the Trust Fund and Sri Lanka Institute of Information Technology Company (Limited by Guarantee) on 19 March 2003, for a period of 08 years. Prior to the expiration of the said agreement, an agreement had again been entered into between the Sri Lanka Institute of Information Technology Company (Limited by Guarantee) and the Trust Fund on 14 November 2005. The following conditions in the initial agreement that had been favourable to the Trust Fund, had either been eliminated or amended.

#### Conditions Eliminated

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- (i.) Section 4 (e)- All assets and liabilities of the Mahapola University shall not be directly or indirectly used for the establishment of other branches of Sri Lanka Institute of Information Technology (SLIIT) or for any other commercial purpose contradictory to the objectives of the Trust Fund.
  - (ii.) Section 4 (g)- All the functions meant for the betterment of the University should be discharge with the concurrence of the Trust Fund.
  - (iii.) Section 4 (h)- Collection of revenue through the conduct of academic courses and incurring necessary expenditure for the advancement of the University shall be a responsibility of the Sri Lanka Institute of Information Technology (SLIIT).
  - (iv.) Section 4 (n)- The Sri Lanka Institute of Information Technology (SLIIT) should be knowledgeable on the fact that the Trust Fund had obtained a substantial amount of loan from the Nation Trust Bank (NDB) and shall assure to make every possible effort to settle the installments when it becomes well-set in financial viability.
  - (v.) Section 4 (p)- The Board of Trustees shall have the right to appoint an independent body of persons consisting of competent managers and auditors to maintain management of the University and evaluation and checking of accounts thereof and to appoint a team of qualified , learned and skilled individuals for the evaluation of new courses likely to be introduced in future.
  - (vi.) Section 4 (s)- In pursuance of the decision of the Board of Trustees, the Malambe University shall be named as “Mahapola Campus”, the auditorium shall be named as Lalith Athulathmudali Auditorium and the relevant name boards shall be clearly displayed in the premises.

- (vii.) Section 4 (y)- In case of termination of this agreement owing to the expiry of period of validity or otherwise, the assets financed by the Trust Fund shall exist as the properties of the Trust Fund.

#### Conditions Amended

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- (viii.) The conditions set out under Section 4(m) of the legal agreement, dated 19 March 2003, that read “ the excess of the revenue generated through the activities of the University should be credited to the Trust Fund before 30 June of the ensuing year after deducting the management fee that had been agreed upon, no other investments should be made without prior approval of the Board of Trustees of the Trust Fund; nevertheless, the Board of Directors of the Sri Lanka Institute of Information Technology (SLIIT) may seek approval of the Board of Trustees of the Trust Fund in order to maintain a reserve account in view of the future development of the University, and for such development activities, the Trust Fund shall provide funds from the reserve account” had been amended through the new agreement in a manner that the land belonging to the Trust Fund shall be given to the Sri Lanka Institute of Information Technology (SLIIT) on lease whilst a sum of Rs. 8 million or 20 per cent of the annual net profit of the Sri Lanka Institute of Information Technology , whichever is higher, should be paid as the lease rent in terms of Section 5 (a) (i) of the agreement.
- (ix.) In terms of Section (l) of the agreement entered into between the Trust Fund and the Sri Lanka Institute of Information Technology on 19 March 2003, the right to recommend on the activities relating to the development of the University had been reserved by the Board of Trustees, and all the measures in regard to the betterment of the University should be taken under the consent of the Trust Fund. However, it had been agreed in terms of Sections 4(e) and (f) of the new agreement that , in order to achieve the objectives of the Sri Lanka Institute of Information Technology, the activities such as, carrying out the operations of the University, preparation of Circulars in accordance therewith, preparation for the examinations, enrollment of students, employment of academic staff, and management & maintenance of infrastructure, be carried out in accordance with the decisions taken by the Board of Directors thereof whilst only the major constructions are done under the approval of the Trust Fund.

## **5. Accountability and Good Governance**

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### **5.1 Presentation of Financial Statements**

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In terms of Section 6.5.1 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, the draft annual report and the financial statements should be furnished to the Auditor General within a period of 60 days after the close of the year of accounts. However, the financial statements of the year under review had been presented on 17 July 2018.

## 5.2 Internal Audit

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An Internal Audit Unit had not been established for the Trust Fund in accordance with Financial Regulation 133 of the Democratic Socialist Republic of Sri Lanka, and the Management Audit Circular, No. DMA/2009/(1), dated 09 June 2009. An internal audit had not been carried out by the Internal Audit Unit of the Ministry as well.

## 6. Systems and Controls

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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
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(a) Management of Investments	Managing investments without formal approval, and failure to evaluate investment benefits.
(b) Internal Control	Non-availability of the post of Accountant. Recommendation, and approval on payments had been done by the Director himself. Accounting, and maintenance of books and registers had remained at weak level.