

Mahapola Higher Education Scholarship Trust Fund - 2014

The audit of financial statements of the Mahapola Higher Education Scholarship Trust Fund for the year ended 31 December 2014 comprising the balance sheet as at 31 December 2014 and the income and expenditure account, statement of changes of 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) Mahapola Higher Education Scholarship Trust Fund Act No.66 of 1981. Due to the delay occurred in the presentation of financial statements for the year ended 31 December 2014, the Report of the Auditor General on the transactions was issued to the Chairman of the Fund on 03 October 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

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

My responsibility is to express an opinion on these financial statements based on my 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

As a result of the matters described in paragraph 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.

2. Financial Statements

2.1 Disclaimer of Opinion

Because 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 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 revelation 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

The following observations are made.

- (a) In terms of Paragraph 4.56 of the Conceptual Framework for Financial Reporting, an entity should prepare its financial statements according to the historical cost basis or other bases and that basis should be disclosed in the financial statements. Nevertheless, the Trust Fund had not disclosed the basis adopted in the preparation of financial statements.
- (b) Sri Lanka Financial Reporting Standard 07

 - (i) In terms of Paragraph 8 of the Standard, the carrying amount of financial assets and liabilities should be categorized in the Statement of Financial Position or notes to the accounts. Nevertheless, the Trust Fund had not taken action accordingly.
 - (ii) Although disclosure should be made on the financial risk management in terms of Paragraphs 31 and 33 of the Standard, Trust Fund had not made such disclosures.
- (c) Sri Lanka Accounting Standard 01

 - (i) The Trust Fund had not presented the cash flow statement along with the financial statements in terms of Paragraph 10 (d) of the Standard.
 - (ii) Although assets and liabilities should not be offset unless permitted or required by Paragraphs 32 of the Standards, the Bank overdraft amounting to Rs.11,440,401 had been deducted.
 - (iii) In terms of Paragraph 38 of the Standard, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. Nevertheless, the Trust Fund had not presented comparative information of notes to the accounts.

- (iv) Although accumulated fund and net surplus should be stated under equity in the statement of financial position according to the Paragraph 57 of the Standard, it had been inappropriately stated as non-current liabilities.
- (v) Financial assets of the Fund amounting to Rs.8,364,011,651 had not been separately recognized as non-current assets and current assets in terms of Paragraph 60 of the Standard.
- (vi) In terms of Paragraph 99 of the Standard, the income and expenditure account should be prepared under a classification basis depending on the nature and the functions of the entity. Nevertheless, action had not been taken accordingly.
- (d) Sri Lanka Accounting Standard 16

In terms of Paragraph 15 of the Standard, an item of property, plant and equipment that qualifies for recognition as an assets shall be brought to account at its cost, those had been accounted at book value.
- (e) Sri Lanka Accounting Standard 18

Although interest should be computed using the effective interest method in terms of Paragraph 30 (a) of the Standard, interests had been computed at the accrued basis.
- (f) Sri Lanka Accounting Standard 24

In terms of Paragraphs 25 and 26 of the Standards, the related party transactions should be disclosed. Nevertheless, the Trust had not so disclosed the related party transactions.
- (g) Sri Lanka Accounting Standard 39

The debit balance constituting Treasury Bonds of Rs.3,381,573,778, Treasury Bills of Rs.501,949,964, resale of Rs.123,737,617, preference share of Rs.227,080,000, debenture of Rs. 556,094,821, Asset Back Trust Certificate of Rs.1,163,206,493, Commercial Papers of Rs.368,946,233, fixed deposits of Rs.214,493,664 and the balance of current account amounting to Rs.48,831 and the repurchase credit balance of Rs.1,302,302 existed according to the account presented by the Company relating to the portfolio managed by the National Wealth Corporation Ltd. had not been categorized and stated in the statement of financial position in terms of Paragraph 45 of the Standard. Further, the basis followed in the valuation of these investments had not been disclosed in the financial statements.
- (h) Sri Lanka Accounting Standard 40

The land of 25 acres in extent situated at Malambe which had been brought to account at Rs.12,460,179 and leased out to the Sri Lanka Institute of Information Technology (SLIIT) in the year 2005 had not been separately accounted as a property of the Trust in terms of Paragraph 5 of the Standard. Similarly, these properties had not been assessed at the present value and shown in the financial statements.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) The payable gratuity worth Rs.858,900 required to be accounted under the non-current liabilities had been shown under the current liabilities.
- (b) Dividends valued at Rs.9,000,000 to be adjusted to the statement of changes in equity had been stated under the income in the Income and Expenditure Account.
- (c) Rent of Rs.89,471,655 receivable from Sri Lanka Institute of Information Technology relating to the period from the year 2005 up to the year under review had not been brought to account by the Trust Fund.
- (d) A sum of Rs.265,000,000 receivable as the Online lottery income and penalty for delays relating to the year under review had not been brought to account.
- (e) Bonus shares valued at Rs.100,000,000 issued by a subsidiary of the Trust Fund before the year 2013 had not been included in the financial statements of the Trust Fund.
- (f) Although the interest income of the fixed deposits for the year under review had been shown as Rs.262,930,213 in the ledger, it had been overstated by Rs.26,445,295 and shown as Rs.289,375,508 in the financial statements.
- (g) According to the Development Lottery Board Act, the profit share to be received by the Trust as the Development Lottery profit shares amounted to Rs.979,015,762. Nevertheless, it had been shown as Rs.897,768,399 by understating Rs.81,247,363 in the financial statements.

2.2.4 Unexplained Differences

The following observations are made.

- (a) Although the balance of the Mahapola portfolio managed by the National Wealth Corporation Ltd. amounted to Rs.6,535,829,099 relating to the year under review as per the account presented by that company, that balance amounted to Rs.6,530,353,720 according to the balance sheet of the Mahapola Trust Fund. Accordingly, an unexplained difference of Rs.5,475,379 was observed.
- (b) Although the value of scholarships awarded to the Advanced Level students from the profit received by the Trust Fund through the President's Fund amounted to Rs.55,159,000 according to the confirmation given by the President's Fund, that value had been shown as Rs.54,285,000 in the financial statements of the Trust Fund, thus observing an unexplained difference of Rs.874,000.

2.3 Accounts Receivable and Payable

Expenditure totalling Rs.3,832,874 payable by the School Development Fund relating to constructions carried out in several schools had been brought forward from the year 2013 without being taken any step thereon.

3. Financial Review

3.1 Financial Results

According to the financial statement presented, the financial result of the Fund for the year under review was a surplus of Rs. 961,590,743 as compared with the surplus of Rs.1,079,677,832 for the preceding year, thus resulting in a deterioration of Rs.118,087,089 in the financial statement of the year under review as compared with the preceding year. Although revenue had increased by Rs.237,580,513 compared to the preceding year, the above deterioration had been mainly due to increase in the payment of Mahapola Scholarships by Rs.402,691,050.

Analysis of the financial results of the year under review and 02 preceding years revealed a surplus of the financial results amidst fluctuations from the year 2012 up to the year under review. However, when readjusting employees emoluments and depreciations for non-current assets to the financial results, the contribution of the Fund amounting to Rs.688,827,839 in the year 2012 had increased up to Rs.1,086,213,752 in the year 2013, whereas it had deteriorated up to Rs.968,376,850 during the year under review.

4. Operating Review

4.1 Performance

4.1.1 Planning

The targets expected to be achieved had not been quantitatively and financially depicted in the Corporative Plan prepared by the Fund relating to the period from 2012 to 2015 and an Action Plan and progress reports based on the above Plan had not been prepared. Therefore, progress could not be evaluated.

4.1.2 Functionality and Review

The Trust Fund had received sums totalling Rs.1,914 million comprising interests from investment deposits and income received from the Development Lottery Board during the year under review. Out of that, a sum of Rs.1,023 million or 54 per cent only had been spent for awarding 12,656 Mahapola Scholarships as one of the objectives of the Trust Fund. Attention of the Fund had not been drawn to use the balance sum for the fulfillment of other expected objectives of the Fund. Accordingly, the money thus saved had been invested and the investment value had been Rs.1,512 million by the end of the year under review.

4.2 Transactions of Contentious Nature

With the objective of paving the way for the students who are not received opportunities to enter in the University to have access to the higher education field in Information Technology, approval had been granted by the Cabinet Paper No.98/995/11/052 dated 08 July 1998 to establish an Information Technology Institute under the contribution of the Trust Fund. Accordingly, it had been decided at the meeting held in the Ministry of Internal and International Commerce to establish Sri Lanka Institute of Information Technology, a Company limited by guarantee to carry out transitional activities and to transfer it to the University of Moratuwa at the end of the transitional period. Accordingly, the Mahapola Higher Education Trust Fund had been entrusted the responsibility to establish the Sri Lanka Institute of Information Technology, a Company limited by guarantee inclusive of the term “Sri Lanka” and provide necessary funds and the resource contribution thereto under the Companies Act, No.17 of 1982. The matters observed in that connection are as follows.

- (a) In terms of the agreement entered into with the Sri Lanka Institute of Information Technology, a company limited by guarantee on 19 March 2003, the management of the University situated in a land of 25 acres in extent at Malambe and owned by the Trust Fund had been entrusted to that company for a period of 8 years. Before the end of that agreement, the Trust Fund and the Sri Lanka Institute of Information Technology (Limited by Guarantee) Company had entered into an agreement on 14 November 2005 and the following conditions included in the original agreement which were favourable to the Trust Fund had been either eliminated or amended in the new agreement.

Conditions Eliminated

- (i) Section 4 (e)- All assets and liabilities of the Mahapola Higher Education Trust Fund 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

- (i) 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.
- (ii) 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

5.1 Presentation of Financial Statements

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 60 days from the close of the year of accounts. Nevertheless, financial statements had been furnished on 18 July 2018.

5.2 Internal Control

Due to lack of a post of Financial Manager/Accountant in respect of financial activities of the Fund, making recommendations and granting approval for the payments is carried out by the Director himself and accounting and maintenance of books and registers remained at a weak level.

6. Systems and Controls

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

Area of Systems and Controls	Observations
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(a) Investments Management	Management of investments without proper approval and failure in evaluating investment benefits.
(b) Internal Control	Existing accounting and maintenance of books and registers at a weak level.
(c) Procurement.	Failure to take steps in conformity with the Procurement Guidelines, Procurement Manual and Procurement Plans.