

National Wealth Corporation Limited – 2017

The audit of the financial statements of the National Wealth Corporation Limited (“the Company”) and the consolidated financial statements of the Company and its Subsidiary (“the Group”) for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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.

This report is issued in terms of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Board’s Responsibility for the Financial Statements

The Board of Directors (“Board”) 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 Board 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. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2017, and their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act, No.07 of 2007, I state the followings:

- (a) The basis of opinion and scope and limitations of the audit are as stated above.
- (b) In my opinion :
 - (i) I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.
 - (ii) The financial statements of the Company give a true and fair view of its financial position as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
 - (iii) The financial statements of the Company and the Group comply with the requirements of the Section 151 and 153 of the Companies Act, No. 07 of 2007.

2.3 Non – compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions etc.	Non – compliance
(a) Government Procurement Guidelines	The Company had procured the non-current assets worth Rs.7,153,766 during the year under review without being followed an approved and accepted procurement procedure.

(b) Public Enterprises Circular
No. PED 12 of 02 June
2003

(i) Section 5.1.3

A Corporate Plan had not been prepared by the Company since its inception.

(ii) Section 9.2

The Company does not have an approved cadre registered with the Department of Public Enterprises.

(iii) Section 8.3.3

Even though a sum of Rs.5,050,011 had been paid as staff incentive during the year in review, the Company does not have an approved incentive scheme in this regard.

(c) Schedule 2 of the Fund
Management Agreement
dated 18 November 2003

Investment Committee should conduct quarterly review meetings for the purpose of reviewing portfolio performance. However, the Company had not been compiled with this yet.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company had resulted in a pre-tax net loss of Rs.2,780,996 as compared with the pre-tax net loss of Rs.86,361,454 for the preceding year, thus showing an improvement of Rs.83,580,458 in the financial results of the Company. Increase in investment and other operating income by Rs.88,695,869 was the main reason attributed for this improvement in the financial results.

In the meantime the Group had resulted in a pre-tax tax net profit of Rs.160,580,557 during the year under review as against the pre-tax net loss of Rs.585,948,925 for the preceding year, thus showing an improvement of Rs.746,529,482 in the financial results of the Group. Increase in investment and other operating income by Rs.639,851,263 was the main reason attributed for this improvement in the financial results.

3.2 Analytical Financial Review

3.2.1 Comparison of Budgeted and Actual Financial Results

According to the budgeted financial statements and the actual financial statements presented for the year under review, actual net interest income and management fee income had increased by Rs.263,471 and Rs.356,050 respectively when compared with the budgeted financial statements. On the other hand actual other operating income, capital gain and dividend from Subsidiary had decreased by Rs.11,271,804, Rs.4,534,094 and Rs.100,000,000 respectively when compared with the budgeted financial statements.

4. Operating Review

4.1 Performance

According to the Memorandum of Articles of the Company, the primary objectives of the Company are: (a) to promote economic development in Sri Lanka by the improvement and enhancement of capital formation through financial services, acquire sell and deal in, hold or exchange all kinds of securities (b) to incorporate, amalgamate with or enter into a partnership or arrangement for the purpose of carrying on business of providing financial services (c) to undertake and transact business as investment advisors and managers (d) to undertake portfolio and investment management and (e) to carry on the business of financial/ management skills development, training and public awareness programmes.

However, A Corporate Plan or Strategies had not been prepared or set out since its inception of the Company in order to achieve these objectives. Further, an Action Plan also had not been prepared for the year under review. Hence, the performance of the Company for the year under review could not be ascertained in audit.

4.2 Management Activities

The following observations are made

- (a) It was observed in audit that the Company had failed to properly implement the marketing strategies in order to meet the market demand by minimizing cash outflows. Moreover, a strong client base had not been developed by the Company. Therefore, the Company had sustained an operating loss of Rs.2,780,996 for the year under review.
- (b) According to the Fund Management Agreement between the Mahapola Trust Fund and the Company, the Company had been formed with the intention of managing Mahapola Fund. However, the memorandum of Association of the Company had not included this as objective of the Company. Hence, the validity of this Fund Management Agreement is questionable in audit.

4.3 Transactions of Contentious Nature

Even though the Company had received the income tax assessments aggregating Rs.384,055,786 for the previous six years of assessments commencing 2008/2009 from the Department of Inland Revenue, actions had not been taken to remit this tax to the Commissioner General of Inland Revenue. As a result 50 per cent of penalty totaling Rs.192,027,893 on delaying the payment had been imposed by the Department of Inland Revenue. However, the Company had made an appeal against the said notice of assessments issued by the Commissioner General of Inland Revenue.

5. Accountability and Good Governance

5.1 Unresolved Audit Paragraphs

The audit paragraphs included in the previous Audit Reports for which adequate attention had not been paid appear below.

- (a) The company has registered as a primary dealer with the Central Bank of Sri Lanka in 2003. According to Section 2.1 of the agreements entered into between the Mahapola Trust Fund (MTF) and the Company, all the investment decisions should have been taken by the Investment Committee appointed by the MTF. However, in contrary that requirement then CEO and Chief Dealer of the Company had involved in taking an investment decision on perform repurchase transactions with two private companies namely Trillion Securities (Pvt) Ltd and Virtual Investment & Trading Lanka (Pvt) Ltd. Further no approval in this connection had been obtained. Subsequently, the Company had conducted a forensic audit in this regard and according to the forensic audit report, it was revealed that the above officers were involved in an irregular transaction.

The following observations are also made in this connection

- (i) It was observed that no action had been taken by the Company against the parties concerned even up to the date of audit on 30 May 2018.
- (ii) The Central Bank of Sri Lanka (CBSL) had issued a directive on 07 August 2015 to the Company by instructing that to honour all dues arising from repurchase transactions to the said clients in terms of master repurchase agreement with the above two clients in terms of powers vested by Regulations 11(2) of the Local Treasury Bills (Primary Dealers) Regulations No.01 of 2009 dated 24 June 2009 and Regulations 11(2) of the Registered Stock and Securities (Primary Dealer) Regulations No. 01 of 2009 dated 24 June 2009. Since the CBSL had not revoked this directive, Company is responsible to act accordingly.
- (iii) The Company had filed an appeal in the Court of Appeal on 18 August 2015 against the directive made by the CBSL and the Court of Appeal had issued an interim order stating that to not implement said directive until 04 September 2015. However, after considering the requests made by the all responded parties, the above interim order had been withdrawn by the Court of Appeal on 29 March 2016. Subsequently, the Company had made another appeal in the Supreme Court on 18 April 2016 by challenging the judgment delivered by the Court of Appeal. But no judgment had been delivered in favour of the Company by the Supreme Court. Nevertheless, the Company had submitted the Forensic Audit Report to the CBSL on 27 December 2016. However, the CBSL had not given any directive to the Company in this regard even up to the date of this report.

(b) Unauthorized Brokerage Payments

The Company had made a complaint in the Criminal Investigation Department (CID) during the year 2016 in respect of unauthorized brokerage fees amounting to Rs.19,725,000 paid to two private companies (White Grove Holdings and Astral Capital Holdings) in 2014. It was further observed that the Company had not got confirmed whether these companies had registered at the CBSL as financial companies before making the payment. Further, The Company had failed to disclose this Transaction in the financial statements prepared for the year 2017.