

Lalith AthulathMudali Mahapola Higher Education Scholarship Trust Fund - 2018

1.1 Qualified Opinion

The audit of the financial statements of the Lalith AthulathMudali Mahapola Higher Education Scholarship Trust Fund for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance 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(3) 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 Fund as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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

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

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

1.4 Audit Scope (Auditor's Responsibilities 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 Fund'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 Fund y 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 Fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 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. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc.

1.5.2 Deviation from accounting standards.

Audit Observation	Comments of the Management	Recommendation
According to the Sri Lanka financial Reporting Standards 09 of Chapter 4.1.1. Financial Asset classified as Amortization cost, fair value though other comprehensive income and fair value in profit or loss, but Rs.10,232,401,250 of financial Assets were not stated.	According to that, Accounts will be prepared in 2019.	Should be followed Accounting Standards.

1.5.3 Accounting Policies

Audit Observation	Comments of the Management	Recommendation
--------------------------	-----------------------------------	-----------------------

According to the depreciation Policy of the financial statements of the Trust Fund, Property Plant and equipment should be depreciated from the starting date of using that asset. But the plant and equipment which are brought during the year 2018 had been depreciated for the whole year. So Rs. 181,457 was overstated in Accounts.

An error was occurred when Calculating depreciation and the error will be corrected in while preparing in 2019 Accounts.

The financial statements should be prepared according to the Accounting Principles.

1.5.4 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
--------------------------	-----------------------------------	-----------------------

(a) Expenditure of Medical and Accident Insurance was Rs. 87,500 but pre-payment was Rs. 360,572 and expenditure Rs. 448,072 had been included as expenditure in the Financial Statement.

It will be corrected in 2019.

Pre-payment should be Accounted correctly.

(b) 2013 onwards the consolidated financial statements with wholly owned subsidiary companies of the Trust Fund such as National Wealth Corporation and NatWealth Securities had not been prepared and furnished to audit.

The consolidated Financial Statements have been prepared since 2013.

The consolidated Account should be present for Audit.

(c) The 25 acres Land situated in Malabe was accounted as Rs.12,460,179 in year 2005 own by the Trust Fund had given on lease rent basis to Sri Lanka Institute of Information Technology (SLIIT) and these properties also had not been disclosed in the financial statement by valued at present value.

Due to the problem existing with the Sri Lanka information technology institution the Land couldn't be valued.

There is a Lease Agreement with SLIT, so valuate and present value should be Accounted.

- | | | | |
|-----|--|---|---|
| (d) | In terms of section 11(1) (b) of the Development Lotteries Board Act, the Mahapola Trust Fund shall remit the excess of the rate at which it invested in the formation Development Lotteries Board. However, on the year the share of the Trust Fund in excess of Rs.1,093,798,978 but it Rs.189,198,591 reduced to Rs.904,600,387 only were listed in the Financial Statements. | The amount received by the Development Lottery Board has been accounted the Trust Fund. There is no definite agreement on the amount of profits owed. | A definite agreement must be reached. |
| (e) | Between 2012 and 31 st December 2018, the Trust Fund should have received the surplus form the Development Lotteries Board, but the president's Fund did not remit Rs.835,766,892 were not for accounted. | The amount received by the Development Lottery Board has been accounted the Trust Fund. There is no definite agreement on the amount of profits owed. | Necessary adjustments should be made to the Financial Statements in a definite agreement. |

1.6 Accounts Payable

Audit Observation

A sum totaling Rs.3,832,875 to be paid from School Development Fund on behalf of the constructions were carried out on several schools are being carried forward in the financial statement since 2013 and no one had applied for it and it had not been identified as payable.

Comments of the Management Recommendation

Any one have not requested and a Report will be submitted in future.

By identifying correctly and the payable balances should have to be adjusted.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Non-compliance Rules Regulations etc.

Section 6.5.1 of Public Enterprises Circular No. PED 12 of 02 June 2003

The draft annual report and the financial statements should be

Comments of the Management Recommendation

Not make that delays for in future.

Should be worked according to the Circular.

furnished to the Auditor General within 60 days from the close of the financial year. But financial statements for the year 2018 had been furnished to the Auditor General on 31st July 2019.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus Rs.451,560,612 and the corresponding deficit in the preceding year amounted to Rs.227,539,892. Therefore an improvement amounting to Rs.679,100,504 of the financial result was observed. The main reason for the improvement is that Rs.904,600,387 receipt from the Development Lottery Board.

2.2 Trend Analysis of major Income and Expenditure items

Major income and expenditure items of the year under review compared with the preceding year are given below.

- (a) Main income ways of the Fund is increased by 67 percent when compared with previous year. The main reason for this improvement is over 100 percent of receipts compared with last year from Development Lottery Board.
- (b) Receipts from other income sources had been increased by 29 percent when compared with previous year.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation

- (a) To set up and assist in the management and conduct of schools, institutes, foundations and similar institutions engaged in the furtherance of education; and to set up and assist in the setting up

Comments of the Recommendation Management

The Fund does not have sufficient funds to carry out all the purposes set out in the Act. Action should be taken to raise funds in terms of the Act

and management of vocational training institutes for enabling youth to develop their vocational skills and competence; to provide assistance for the development and improvement of the skills and competence of lecturers, teachers and such persons engaged in the furtherance of education. That objectives are mentioned at Trust Fund 6.1 paragraph but Fund not attention for active.

- (b) SLIIT had lost its right to the Trust Fund had lost its rights in respect of SLIIT as per the Memorandum of Understanding signed by the Sri Lanka Information Technology (collateral) Limited (SLIIT) on 14th November 2005 and 12th May 2017 and the Cabinet Memorandum submitted by His Excellency the President. Further, 2 inquiries are under investigation by the Bribery and Corruption Commission and the Presidential Special Investigation Commission to ensure that the 2015 agreement is not lawful, and submit a report within a month on how to deal with SLIIT at the Public Enterprises Accounting Committee meeting held on July 12, 2019. We have informed the Secretary to the Ministry of Higher Education and the Chairman of the Trust Fund Promotion of the report date had already been submitted. It was presented to Parliament on August 2, 2019, but it had not been approved to implement its recommendations.
- I will take action once the recommendations are approved. Necessary steps should be taken.
- (c) In terms of the Cabinet Decision No. Min/18/1873/824/020 and dated 05 September 2018, the agreement of management of This company has Cabinet Decision valued and Necessary should be done actions are taking. immediately.

investments has been cancelled and the investment portfolio which was managed on 28 February 2019 by the National Wealth Corporation Limited has been transferred to the main account of the Mahapola Trust Fund, in the Establishment Branch of the Bank of Ceylon. In terms of the said Cabinet Decision, winding-up of the National Wealth Corporation Limited and the selling of the NatWealth Securities Limited should be carried out. However, it has not been so done.

- (d) Above (c) mention activities had not done by the Mahapola Trust Fund has obtained a sum of Rs.1.111 billion as a credit facility of Rs.4 billion from the Bank of Ceylon and Treasury Bonds and Treasury Bills of that Company have been purchased on 26 March 2019 and resold for Rs.1.113 billion on 27 March 2019 by the Trust Fund and those money have been invested in fixed deposits and settled on 27 June 2019.
- (e) According to the of the Trust Fund Act 6.2 (a) (c) (d),the Trust Fund was authorized to accept grants, gifts or donations from local or foreign sources or materials to raise money in accordance with the Clause and to conduct the lottery with the consent of the Government. The Mahapola Trust Fund made the full contribution of the Mahapola Higher Education Scholarship for university students at the outset, but was later contributed by the government by 49 per cent.

This company has Cabinet Decision valuated and Necessary should be done actions are takeing. immediately.

It is proposed to do in the Future. Action should be taken to raise Funds.

3.2 Procurement

Audit Observation

In terms of 2006 Procurement Guideline 4.2 of the Guidelines, the procurement activities expected for a period of at least three years, should be listed in the main Procurements Plan. However, the Fund had not prepared the Procurement Plan.

Comments of the Recommendation Management

It will be done in the Future. Should be taken in according with the procurement guide line.

3.3 Human Resources Management

Audit Observation

Up to the date 31st December 2018 through the Approved Fund consisting with 26 staff members. So truly Fund was consisted by 14 members. There has been vacants for 12 designations. Regarding the vacant there were 06 positions of Top level 03 positions of Middle level and Primary level 03 positions.

Comments of the Recommendation Management

Recruitment is going on. Action should be taken to identifying relevant posts and fill these vacancies.