

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lalith Athulathmudali Mahapola Higher Education Scholarship Trust Fund (Trust Fund) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of profit and loss and other comprehensive income, statement of changes in equity, and statement cash flows for the year then ended, and notes to the financial statements, including material accounting policy information was carried out under my direction in pursuance of provisions of the National Audit Act No. 19 of 2018 and the Financial Act No. 38 of 1971 read in conjunction with the Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My comments and observations which I consider should be reported 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 Trust Fund as at 31 December 2024 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 Trust 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 Trust Fund or to cease operations, or has no realistic alternative but to do so.

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

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

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 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 Trust Fund'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 Trust Fund 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 Trust Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Trust Fund;
- Whether the Trust Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Trust Fund 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 Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with reference to relevant standard	Comments of the Management	Recommendation
(a) The fixed deposits shown under other assets in the previous year had been presented under financial assets in the year under review, and the comparative amounts had not been reclassified in accordance with the paragraph 41 of Sri Lanka Accounting Standards 01 in relation to this change done in the classification.	The actions will be taken to correct this in the future.	The comparative values of the previous year should also be reclassified in relation to the changes made in the classification of assets as per the Sri Lanka Accounting Standards.
(b) The residual value and the useful life of an asset should be reviewed at least at the end of each financial year in accordance with the paragraph 51 of Sri Lanka Accounting Standards 16. Although the changes should be accounted as the changes in accounting estimates in accordance with Sri Lanka Accounting Standards 08, the proceedings had not been done in accordance with the standard regarding the property, plant and equipment which had been fully depreciated but were still in use costing Rs. 16,473,018 as at the end of the year under review.	All executive posts in the fund remain vacant at present, and the duties have to be performed with a limited staff. Reporting in this regard will be done in future.	The assets that have been fully depreciated but are still in use should be reviewed annually in accordance with Sri Lanka Accounting Standards, and the necessary disclosures should be made. The related disclosures should also be made regarding the temporarily inactive assets.

The relevant disclosures had not been made in the financial statements in accordance with paragraph 79 (b) of the standard. Further, the disclosures had not been made in accordance with paragraphs 79 (a) and (c) of the standard in respect of the temporarily inactive stock of property, plant and equipment worth Rs. 10,748,100 as at 31 December of the year under review.

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| <p>(c) The land called Millewawatta, of which the acquisition activities had not been completed and for which an advance of Rs. 340,200,000 had been paid on the basis of transferring only the physical possession from the Urban Development Authority in agreement to be acquired under 99-year lease basis and the buildings worth Rs. 1,064,520,695; wherein the Sri Lanka Institute of Information Technology (SLIIT) in Malabe is being maintained, for which no agreements had been entered into for generating income, had been accounted as investment property contrary to paragraph 16 of Sri Lanka Accounting Standards 40.</p> | <p>The Board of Trustees has decided to carry out a forensic audit in this regard.</p> | <p>The assets should be accounted correctly in accordance with Sri Lanka Accounting Standards.</p> |
| <p>(d) Although income and expenditure should not be offset in accordance with the paragraphs 32 and 33 of Sri Lanka Accounting Standards 01, the income amounting to Rs.1,286,146,850 received as Government contribution for Mahapola Higher Education Scholarships through the University Grants Commission during the year under review had been offset against the expenditure of Mahapola Scholarship. As Mahapola Higher Education</p> | <p>It has been accounted on accrual basis and the contribution of the University Grants Commission has been recorded.</p> | <p>Income and expenses should be accounted accurately in accordance with Sri Lanka Accounting Standards.</p> |

Scholarship payments had been included in the note under direct expenditure, and the bursaries (non-Mahapola Scholarships) of Rs. 213,628,000 had been included in the amount received from the University Grants Commission related thereto, the Income and Expenditure of Mahapola Scholarship for the year shown in the note had been overstated by that amount.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although the interest income receivable on treasury bills as per the financial statements as at the end date of the year under review was Rs. 170,440,105, the said value was Rs. 275,993,745 according to the calculations of the audit. Consequently, the interest income and assets had been understated by Rs. 105,553,640.	It has been corrected.	The interest income receivable should be calculated and accounted accurately.
(b) Although the amount payable to the University Grants Commission for the selection of scholarship recipients for the 2022/2023 academic year according to the payment vouchers is Rs. 960,515, the said amount had been mentioned as Rs. 2,332,731 in the financial statements. Consequently, liabilities and expenses had been overstated by Rs. 1,372,216.	These are the amounts payable for the years 2020/21, 2021/22 and 2022/23.	The actions should be taken to accurately identify and account the expenses and liabilities related to the year.

(c) When correcting the overstatement of the opening balance of the payable Mahapola Scholarship Account by Rs. 8,042,000, the account receivable from the University Grants Commission had been credited instead of crediting the retained earnings account.	This correction has been done between the scholarship payment account and the University Grants Commission receivables account.	When the errors are corrected, the relevant account should be identified correctly and the adjustments should be made.
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1.5.3 Unreconciled Control Accounts or Reports

Audit Observation	Comments of the Management	Recommendation
Although the value on treasury bonds as per the financial statements was Rs. 377,273,000, the said value as per the corresponding reports presented Rs. 200,273,000. Consequently, a difference of Rs. 177,000,000 was observed.	There is no Deal Note for the values as per the financial statements. The Deal Note for the face value has already been submitted for audit.	The values shown in the financial statements should be reconciled by the relevant schedules.

1.5.4 Preparation of Consolidated Financial Statements

Audit Observation	Comments of the Management	Recommendation
The consolidated financial statements, which should be prepared in accordance with Sri Lanka Accounting Standards 26, with the National Wealth Corporation which is the fully-owned subsidiary and the Natwealth Securities which is the sub-subsidiary of the Trust Fund for the period from 2013 to the year under review, had not been prepared and submitted for audit.	The directors of Natwealth Securities and National Wealth Corporation have been instructed to prepare and submit the financial statements in a proper manner. The steps will be taken to submit those in the future.	The consolidated financial statements with the subsidiaries of the Fund should be prepared and submitted for the audit.

1.5.5 Documentary Evidences not made available for Audit

	Item	Amount (Rs.)	Audit Evidences not provided	Comments of the Management	Recommendation
(a)	Lease rental income of the Sri Lanka Information Technology Corporation	25,000,000	Original of the Lease Agreement and valuation reports related to lease calculation	Only a photocopy is available in the office.	The original of the lease agreement should be presented to the audit.
(b)	Transfers to the bank account of the NatWealth Securities Company	7,200,000	Approval of the Board of Trustees and the letters confirming the receipt of the relevant funds by the company	The Board of Trustees has decided to conduct a forensic audit in this regard.	Approval of the Board of Trustees and the letters confirming the receipt of the relevant funds by the company should be submitted for audit.

1.6 Accounts receivable and Payable

1.6.1 Accounts Receivable

Audit Observation	Comments of the Management	Recommendation
(a) According to the financial statements, the balance confirmation documents regarding the balances of Rs.40,791,005 receivable for Mahapola Trade Fairs and Rs. 1,021,450 receivable from the Ministry of Trade, Commerce and Food Security had not been submitted for audit, and these values had not been shown in the financial statements of the relevant institutions as balances payable.	The Board of Trustees has decided to conduct a forensic audit in this regard.	The receivable balances should be confirmed and recovered from the respective parties.
(b) The rental deposit amounting to Rs. 1,811,700 deposited at the J.R. Jayawardhana Center,	Mahapola office was maintained at J.R. Jayawardhana Center until 01	The steps should be taken to recover the due deposit amount immediately.

where the Fund's office was previously located, had not been settled even though more than 6 years had passed since the Fund was relocated from that location. May 2023 and the deposit amount of Rs. 1,811,700 has been requested on numerous occasions after the said date.

1.6.2 Accounts Payable

	Audit Observation	Comments of the Management	Recommendation
(a)	Although the total expenses amounting to Rs. 3,832,875 payable from the Fund to the School Development Societies for construction work carried out in several schools had been mentioned in the financial statements from the year 2013, the steps had not been taken to settle the relevant balances.	It has been accounted as income according to the approval of the Board of Trustees.	The relevant parties should be identified and the steps should be taken to settle the payments.
(b)	The instalments sent to the banks for the payment of scholarships to university students as at 31 December of the year under review had been returned by the bank due to the failure to verify the particulars such as the name of the student and the account number. However, an amount of Rs. 3,851,703, which was stated as a payable expense, had not been settled and repaid to the relevant students.	The returned money that can be paid further will be paid within next two months. Since the payments for the students who have left the university and completed their studies as well as those who have not submitted correct bank account details are remaining further, the arrangement are being made to remove and those and to settle those values.	The steps should be taken to pay the respective amounts to the students who are required to be paid the scholarships and to settle the balances.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Sections 2(1) and 102 of the Inland Revenue Act No. 24 of 2017	The trust fund had not taken steps to register for income tax or to have a tax exemption.	Registration has been done for income tax. The income taxes are exempted as per the Section 12 of the Mahapola Higher Education Scholarship	Confirmation should be obtained from the Department of Inland Revenue that the income taxes are exempted in accordance with the

Trust Fund Act No. 66 of 1981. provisions of the Act.

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| <p>(b) Section 05 of the University Grants Commission Circular No. 2/2019 dated 29 January 2019</p> | <p>(i) Although the Mahapola Higher Education monthly scholarship instalment should be credited to the bank accounts of the scholarship recipients by the 15th of the relevant month, there was a delay from 45 to 190 days on 31 occasions in the payment of monthly scholarship instalments from January to December 2024.</p> | <p>The delays are occurred due to holdups in making requests from the universities and delays in providing treasury contributions by the University Grants Commission. Consequently, the requests have been made on the advice of the Board of Trustees to the Department of National Budget to provide the treasury contribution under an expenditure head of the Ministry of Trade.</p> | <p>A formal system should be developed immediately to make the payment of Mahapola Higher Education Scholarship instalments within the due timeframe.</p> |
| | <p>(ii) Trust Fund should forward the monthly scholarship payment documents to the higher education institutions by the 30th of the following month. As per a sample inspection carried out in the year 2024 regarding the University of Moratuwa and the University of Kelaniya, there were delays of between 59 - 118 days and 40 - 95</p> | <p>The delays are occurred in making requests from higher education institutions.</p> | <p>A systematic process should be developed to obtain the necessary documents as at the due date.</p> |

days respectively
in forwarding the
payment
documents by the
Trust Fund to those
universities.

2. Financial Review

2.1 Financial Result

The operating result for the year under review amounted to a surplus of Rs. 2,261,478,730 and the corresponding surplus for the preceding year amounted to Rs. 3,752,507,174. Accordingly, a decline amounted to Rs. 1,491,028,444 was observed in the financial result. The main reason for this decline was the decrease in income by Rs. 747,478,422 and other comprehensive income by Rs. 703,202,233, and an increase in scholarship payments by Rs. 45,023,863.

3. Operational Review

3.1 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
A sum of Rs. 126,874,496 had been spent in the previous year and a sum of Rs. 618,373 in the year under review for the Mahapola Trade Fair held at the Ja-Ela Municipal Council Stadium from 13 to 17 December 2023, and as the income of the Fund was Rs. 2,343,035,448, it had resulted in a loss of Rs. 29,665,257 from the fair. Further, even if an expenditure of Rs. 8,552,128 had been incurred for the trade fair scheduled to be held in Anuradhapura in May 2024, the said trade fair had not been held.	The Board of Trustees has decided to conduct a forensic audit in this regard. Also, a complaint has been filed at the Criminal Investigation Department with the approval of the Board of Trustees.	The investigations should be done regarding the losses incurred by the Ja-Ela exhibition and the non-holding of the Anuradhapura exhibition and if there are any inefficiencies, the steps should be taken to recover the losses from the responsible parties.

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
A land located in Malabe had acquired from the Kaduwela Divisional Secretary in the year 2000 to establish vocational training institutions to improve the vocational skills of the youth, which was an objective of the Trust Fund, and as per the terms stipulated in the land transfer letter, this land should not to be used for any purpose other than the purpose for which it was acquired. However, contrary to the purpose of acquiring the land, the said land had been given on lease to the Sri Lanka Institute of Information Technology (SLIIT) from the year 2015.	This matter has been presented before the Committee on Public Enterprises (COPE) and the Cabinet of Ministers will take an appropriate decision in the future	Legal actions should be taken against the parties responsible for this.

3.3 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) According to Section 5 of the Mahapola Higher Education Scholarship Trust Fund Act No. 66 of 1981, the steps had been taken to fulfil only the objective of providing assistance to the deserving youth for higher education out of the 5 main objectives of the Trust Fund. Accordingly, although it had been targeted to award the Mahapola Scholarship to 42,147 students who were enrolled in a university and qualified to receive a scholarship for the 2022/2023 academic year, due to the fact that the annual income earned by the parents should be less than Rs. 500,000 was taken as a criterion, the number of students eligible to	The scholarship payments are done by managing the funds available, and the scholarship premium has been increased to Rs. 7,500 from April 2025. Also, the scholarship premium offered to the students of the Institute of Advanced Technology and other institutions has also been increased proportionately.	A system to provide scholarships to all students who are eligible to get assistance should be developed urgently.

receive Mahapola Scholarships for the 2022/2023 academic year was 23,560, and out of them, the scholarships had been awarded to only 17,000 students.

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| <p>(b) (i) Although it had been ordered at the meeting of the Committee on Public Enterprises held on 8 January 2021 to carry out internal investigations and refer the matter to the Criminal Investigation Department and take legal actions against the relevant officers regarding the non-receipt of Rs. 750 million receivable to the fund as the lottery person selected for the online lottery that had been implemented since 30 July 2013 was withdrawn from it, the actions had not been taken for that matter.</p> | <p>An investigation is in progress at the Commission to Investigate Allegations of Bribery or Corruption in this regard.</p> | <p>The matter should be referred to the Criminal Investigation Department as per the order of the Committee on Public Enterprises, and the process of taking legal actions against the relevant officers should be expedited.</p> |
| <p>(ii) The approval of the Cabinet of Ministers had been received on 18 October 2021 to re-commence an online lottery, and the approval of the Procurement Committee and the Board of Trustees had been received in February 2023 for awarding the respective contract to the contractor selected under a formal procurement method. However, the online lottery had not been implemented even as at the date of this report.</p> | | <p>The implementation of the online lottery should be expedited.</p> |

3.4 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
As per the approved staff for the Trust Fund, the post at the Senior Management level (Director), 03 posts at the Middle Management level, 03 out of 14 posts at the Secondary and Tertiary level had remained vacant as at 30 April 2025. The presence of such staff vacancies had adversely affected on the payment of Mahapola Scholarships to the students of universities and other higher educational institutions on time as well as on other proceedings of the institution.	As the approval has been received from the Prime Minister's Office to fill the vacancies in the Trust Fund, the applications have been called for the recruitment of senior management level, middle management level and secondary level posts, and the proceedings are in progress to recruit those posts.	The steps should be taken to fill the vacancies in essential posts immediately.
