

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 2019 comprising the statement of financial position as at 31 December 2019 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. In accordance with Article 154 (6) of the Constitution, 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 2019, 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
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(a) The total amount of debentures specified under the financial assets at amortized cost in the Notes 17 of the Financial Statements was Rs. 3,601,600,000 and the fixed assets were not stated at the amortized cost in terms of Sri Lanka Financial Reporting Standards 09 (SLFRS 09).	According to the public sector accounting standards, amortization is not compulsory.	The accounts of the Fund should be prepared in accordance with the Sri Lanka Accounting Standards as stated in the Accounting Policies of the Trust Fund.

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| <p>(b) In terms of the Sri Lanka Accounting Standards paragraph 49 of No. 08, even though the nature and amount in respect of the earlier adjustments should be revealed with the financial statements, total adjustments of Rs. 42, 955,902 which were made earlier had not been revealed.</p> | <p>Action will be taken to submit a report in future about the nature and extent of the adjustments made in the previous year.</p> | <p>Adjustment related to previous year should disclose in financial statement as per the Sri Lanka Accounting Standards.</p> |
| <p>(c) Although the transactions with the related parties should be stated in the financial statements in terms of Sri Lanka Accounting Standard Number 24, Mahapola Higher Education Scholarship Trust Fund had not revealed its transactions with its related parties; Sri Lanka Institute of Information Technology (Guarantee) Ltd. , NatWealth Corporation Ltd, NatWealth Securities Ltd. and Sri Lanka Lotteries Board.</p> | <p>All the institutions identified as parties of the Trust Fund are sub companies and subsidiaries of the Mahapola Trust Fund. Therefore, those transactions cannot be classified as a transaction between the associate parties involved.</p> | <p>Transactions with associated parties must be disclosed in the financial statements in accordance with Sri Lanka Accounting Standards.</p> |

1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) The 25 Acres of the Trust Fund located in Malabe that had been accounted as Rs. 12,460,179/- in 2005 had not been asessed to the present value even by the year under review and not entered into the books.</p>	<p>The present value will be taken into the books after receiving the report of the Chief Government Assessor.</p>	<p>The correct value of the assets should be stated in the financial statements.</p>
<p>(b) Mahapola Trust Fund had spent an amount of Rs. 408,500,000 to construct SLIIT building in Malabe. And SLIIT had reimbursed that amount to the Mahapola Trust Fund in 2015. However, the Fund had stated the value of buildings as Rs. 1,064,520,695 without assuring the ownership of buildings and</p>	<p>The present value of the buildings is taken into account after receiving the report of the Chief Government Assessor.</p>	<p>Accurate values should be taken into the books after the ownership of the buildings has been settled and an assessment report has been obtained.</p>

without a correct assessment of the present value.

- (c) Even though the balance in the savings account of a state bank as at 31 December 2019 is Rs. 2,381,392 as per the financial statements, as per the confirmation of account balances it was Rs. 2,407,963. Bank has mentioned the balance to the date of 28 December 2019. The reasons for the differences must be found and do the necessary adjustments.
- (d) Even if the dividend for the Trust Fund from the profit of Development Lotteries Board in the year 2019 was Rs. 1,160,977,603 as per the letter No. PS/PF/5/36/Vol-ix/ 2020 dated 01st June 2020 of the President's Fund, the annual income was stated as Rs. 997,346,600 in the income statement of Trust Fund. Accordingly, the annual income in the income statement was Rs. 163,631,003 less than the actual income. The revenue was unable to account properly because of not verify the profit relevant to the trust fund from the profit of Development Lottery Board by the president fund even until the date 28.02.2020. Action should be taken to verified and calculated the profit share of the Mahapola Trust Fund before preparing the financial statements.
- (e) Even though the President's Fund had stated that the due income dividend from the Development Lotteries Board as at 31st of December 2019 was Rs. 185,289,003, it was stated in the financial statement as Rs. 75,000,000. Hence the profit was stated as Rs. 110,289,003 less than the due profit. The balance of receivables could not be accurately accounted due to the President's Fund has not yet confirmed the dividend to the Trust Fund as at 31.12.2019 from the Development Lotteries Board's profits as at 28.02.2020 . Arrangements should be made to calculate the profit share which was not sent from the President's Fund to the Mahapola Trust Fund before preparing the financial statements.
- (f) Although the value on acquisition of property, plant and equipment was Rs. 16,426,582 its actual value was Rs. 16,248,500. This is an accounting error that occurred during the previous year's adjustments and should want to write off from the adjustments in the cash flow statements. In the future, steps will be taken to minimize such accounting errors as much as possible. Accurate values should be included when preparing the cash flow statements.

1.5.4 Consolidation

Audit Observation	Comments of the Management	Recommendation
----- Even though consolidate financial statements should be made with the National Wealth Corporation Ltd. and NatWealth Securities Ltd. Which are two subsidiaries with the sole ownership of the Trust Fund for the year under review, they had not been prepared.	----- According to the approval of the COPE Committee held on 12 July 2019, it had been handed over to an auditing firm with the approval of the Board of Trustees for the preparation of consolidated accounts from 2019 onwards.	----- Consolidated financial statements should be prepared and submitted to the audit immediately.

1.6 Accounts receivable and Payable

1.6.1 Accounts Receivable

Audit Observation	Comments of the Management	Recommendation
----- The deposit of Rs. 348,810 made to obtain Cooperative and Wholesale Establishment building on rent had not been recovered even after 3 years of shifting from that building.	----- Although written requests have been made to the CWE on 29.11.2017 and 04.04.2018, the rent deposit has not been repaid by that institution.	----- Action should be taken to recover the money immediately.

1.6.2 Accounts Payable

Audit Observation	Comments of the Management	Recommendation
----- A sum of Rs. 3,832,875 as payable to construction works carried out in several schools from the School Development Fund was stated in the financial statements from 2013. However, measures had not been taken to write off it under the Treasury approval since no one has submitted claims in this respect.	----- Due to the C W E construction and Engineering (Private) Ltd company established under C W E was closed and not having a contract agreement between the company and trust fund unable to make payment for this entity by that trust fund. This will write off from accounts after receive the approval from board of trustee.	----- Action should be taken to obtain the relevant approvals and write off from the accounts immediately.

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
Financial Regulations 103(1)(a) and 104 (3), (4)	Even though a car owned by the fund met an accident on 20.05.2019, action had not been taken in terms of these regulations.	Log entries are placed regarding the vehicle accident. No third party property / personal damage occurred. Because of agreeing to reimburse the total losses by the insurance company this accident were not reported to the police. Should follow the financial regulations in the future.	Should comply with financial regulations.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus Rs. 755,972,796 and the corresponding surplus in the preceding year amounted to Rs. 451,560,612. Therefore an improvement amounting to Rs. 304,412,184 of the financial result was observed. The main reason for the improvement is that increase of Rs. 978,316,002 from investment income.

3 Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The Fund had not taken into consideration to fulfil the aims and objects specified under section 6.1 in the Trust Fund Act such as setting up and management of schools, institutes, foundations and such institutions engaged in providing	Action will be taken to achieve the goals in future when the financial position of the Fund is stable.	Attention should be draw to achieve these targets mentioned in the Act.

education, setting up and management or assistance to set up and management of vocational training institutes enabling vocational skills and competencies, provide assistance for the development and improvement of skills and competencies of lecturers, teachers and such persons engaged in educational activities during the year under review.

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| <p>(b) In terms of Section 6.2 (a) (c) (d) of the Act, the Trust Fund has entrusted with the mandate to accept grants, gifts or donations in cash or kind whether from local or foreign sources and to conduct lottery draws subject to the approval of the government for the purpose of collecting money, funds had not been earned through such resources.</p> | <p>Is in progress.</p> | <p>Necessary action should be taken immediately.</p> |
| <p>(c) Cabinet Approval had been granted for the Cabinet Memorandum No. 98/955/11/052 dated 08 July 1998 to establish an Information Technology Institute with the contribution of the Fund in order to give opportunity of Higher Education for the students who are incapable of entering universities. Accordingly, it was decided at a meeting held at the Ministry of Internal and International Commercial establishes Sri Lanka Institute of Information Technology (Guarantee) Ltd. To perform interim activities and to take over under the University of Moratuwa at the end of interim period. Thus, Sri Lanka Institute of Information Technology (Guarantee) Ltd. was established including the name</p> | <p>The cabinet was informed by a cabinet paper relevant to the future actions have to be taken regarding the SLIIT institution.</p> | <p>Necessary action should be taken immediately.</p> |

“Sri Lanka” under the Companies Act No. 17 of 1982 and entrusted the responsibility of generating required funds and providing resources to the Mahapola Higher Education Scholarship Trust Fund. The following observations were made in this regard.

- (i) As per the agreement signed with the SLIIT (Guarantee) Ltd. on 19 March 2003, the university established in a land of 25 Acres in Malabe belonging to the Trust Fund was transferred to the Sri Lanka Institute of Information Technology for management for a period of 8 years. The Trust Fund signed an agreement again with the Sri Lanka Institute of Information Technology on 14 November 2005 and the original agreement had been amended by removing and revising the following conditions which were favorable to the Trust Fund.

Removed Conditions

- Section 4(e) – All assets and revenues of Mahapola Higher Education Scholarship Trust Fund should not be used directly or indirectly for any other commercial purpose that is not consistent with the objectives of the Trust Fund or other branches of the SLIIT.
- Section 4(f) – All activities being done for improvement of the University should be conducted with the concurrence of the Trust Fund.

- Section 4(g) – Collection of revenues receive by conducting educational courses and incur expenditure required for the benefit of the University is a liability of SLIIT.
- Section 4(j) – The SLIIT should know that the Trust Fund has obtained a substantial loan from the National Development Bank (NDB) for the purpose of setting up the university and the SLIIT assures that every effort will be made to pay premiums when the institution is financially viable.
- Section 4(k) – The Board of Trustees has the right to appoint qualified teams of highly skilled and qualified staff to evaluate the new introductory courses and the right to appoint an independent group of skilled managers and auditors to check and evaluate the management and accounts of the university.
- Section 4(l) - According to the decision of the Board of Trustees, naming the Malabe Campus as the Mahapola Campus, naming the new auditorium as the Lalith Athulathmudali Auditorium and display these name boards clearly in the premises should be done.
- Section 4(m) – The assets which were financed by the Trust Fund must be existed as property of the Trust Fund in the event of end of this agreement due to time out or any other way.

Amended Conditions

- The surplus revenue generate through the activities of the university after deducting of agreed management fees should be credited to the Trust Fund before 30th June in the ensuing year and other investment should not be done without the prior approval of the Board of Trustees of the Trust Fund according to Section 4 (i) of the legal agreement dated 19 March 2003. However, it could be requested approval of the Board of Trustees of the Trust Fund by the board of directors of the Sri Lanka Institute of Information Technology for maintain a reserves account for future development of the university and it had decided to rent the premise own by the Trust Fund through the new agreement on rent basis to the Sri Lanka Institute of Information Technology instead of need money for such development activities can be provided from this reserve account by the Fund. It was agreed that to be paid higher value from both value such as annual rent income of Rs. 8 million as per Section 5(a)(i) or 20 per cent of annual net profit of the Sri Lanka Institute of Information Technology.
- According to the Section 4(h) of the agreement which was made on 19 March 2003 between Trust Fund and the Sri Lanka Institute of Information Technology, the right to recommend about development procedures relating

to universities was directed to the Board of Trustees and all activities done for betterment of the university should be done on the concurrence of the Trust Fund. According to the Sections 4(e) and 4(f) of the second agreement was made among Trust Fund and SLIIT on 14 November 2005, it was agreed that the operational activities of this university are done as per decision of its Board of Director, prepare circulars accordingly, arrangement for conduct examinations, enrolment of students, employment of academic staff, management and maintenance of infrastructure facilities on the order of the Board of Director of SLIIT and the major constructions only should be made under the approval of the Trust Fund.

- (ii) It was entered to two agreements on 12 May 2015 as in between Mahapola Higher Education Trust Fund and Sri Lanka Information Technology (Guarantee) Ltd. on behalf of the land of the Sri Lanka Institute of Information Technology (SLIIT) had built and the money give back to the Fund equaling to the value of investment expenditure of Rs.373,579,392 were made in Sri Lanka Information Technology (Guarantee) Ltd. by the Mahapola Higher Education Trust Fund and to establish the SLIIT as independent organization separate from Trust Fund. The two agreements further

removed the terms favorable to the trust fund from the original agreement entered into on 19 March 2003 and the agreement entered into on 14 November 2005 and added the following new terms.

- A sum of Rs. 408,500,000 will be given to Trust Fund for cover a sum of Rs. 373,579,392 as value of investments made by the Trust Fund, the value of scholarships given in the name of Mahapola and other incidental expenses. After that there will be no any financial interest in between Mahapola Fund and SLIIT. The SLIIT will be acting as independent organization from Mahapola Fund.
- SLIIT will not be surrendered to any Accounting Standards, Sri Lanka Financial Reporting Standards or International Accounting Standards and released from the requirements such as submit of accounts to the Mahapola Fund or consolidate the accounts since year 2015/2016.
- Lease out the land of the SLIIT situated in Malabe for 60 years period since 15 May 2015 to 14 May 2075 in the basis of increase the annual lease rent once every 5 years and accordingly it will bind to be paid lease as Rs.20 million annually for 5 years ended on 14 May 2020 and

Rs.40 million annually for 5 years ended since 15 March 2070 to 14 March 2075.

- It will not needed any written consent of the Mahapola Fund to mortgage, sub lease the land or a part of it situated in Malabe was leased to SLIIT owned by the Mahapola Fund.
- The approval was given to SLIIT to the activities such as to construct buildings in the relevant land premises, fixing machineries or reconstruction, improvement of the land by their own expenditure.

(iii) According to the agreement signed on 14 November 2005, it had signed a new lease agreement with the company on 12th May 2015 despite the lease in arrears as at 12th may 2015 was Rs. 98,642,356 and the lease amounting to Rs.45,358,379 could have obtained to the Trust Fund in year 2015 as per initial agreement had reduced up to Rs. 20,000,000 as per conditions of the new agreement. Even though enter in to such disadvantaged agreements to the Trust Fund relating to the Sri Lanka Institute of Information Technology was established by a Cabinet decision should be done by an approval of the Cabinet, it had not been done accordingly.

(iv)According to the Cabinet decision No. CP/17/0956/701/011 dated 04 May 2017, an approval had been given to recognized the

state-owned assets of SLIIT as an independent decision making entity, which does not belong to the government and to remove the name of this institute from gazette notification relating to assigning duties of the Ministers as it does not come under the purview of any Ministry.

- (v) Further, 2 investigations were in process under the Commission to Investigate Bribery or Corruption and Special Presidential Commission of Inquiry stating that the agreement entered in 2015 was illegal and at the COPE meeting held on 12th July 2019 the Secretary, Ministry of Higher Education and the Chairman, the Trust Fund had been informed to produce a report on the actions should be taken in respect of SLIIT. Even though the report had been submitted to the Parliament on 02nd August 2019, its recommendations could not be implemented.

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| <p>(d) As per the Cabinet Decision No. අම/18/1873/824/020 dated 05th September 2018, the Trust Fund had cancelled the Investment Management Agreement entered with the National Wealth Corporation. Accordingly, the portfolio managed by the National Wealth Corporation was transferred to the major account of the Mahapola Trust Fund in the Corporate Branch of Bank of Ceylon on 28 February 2019. Further, as per the said Cabinet Decision, even though National Wealth Corporation should be liquidated and the NatWealth</p> | <p>The Minister in charge of the subject submitted a Cabinet Memorandum in this regard on 31.12.2019 and action will be taken in future as per the decision of the Cabinet.</p> | <p>Necessary action should be taken immediately.</p> |
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Securities Ltd. should be sold they have not been carried out yet

3.2 Procurement

Audit Observation	Comments of the Management	Recommendation
As per the 4.2 paragraph of the government procurement guideline, every procurement entity should have to prepare a procurement plan and at least three years expected procurement activities should be listed in main procurement plan. However, the Fund had not prepared the Procurement Plan.	A plan has been prepared and submitted regarding the procurement activities of the Mahapola Fund for the next 3 years from 2020.	Must comply with Section 4.2 of the Government Procurement Guideline.

3.3 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
(a) As per the decision of the Investment Committee held on 29th May 2019, it was recommended to appoint an experienced person for investment management with the approval of the Board of Trustees, but the Treasury had not approved the recruitment of a qualified person for the post by 13th July 2020.	Treasury approval had not been obtained to recruit a qualified person.	Recruitment should be done with the approval of the Treasury.
(b) Up to the date 31st December 2018 through the Approved cadre Fund consisting with 31 staff members. But actual staff was consisted by 13 members. There has been vacants for 18 designations. Regarding the vacant there were 06 positions of Top level 06 positions of Middle level and Primary level 06 positions. Actions were not taken to fulfill these vacancies for the year under review.	Action will be taken for new recruitment in future.	Steps should be taken to recruit the required number of employees to maintain the activities of the institution efficiently.

4. Accountability and good governance

4.1 Corporate Plan

Audit Observation	Comments of the Management	Recommendation
From 2014-2017 a corporate plan was prepared but for subsequent periods a corporate plan was not prepared.	It is intended to deal with it in the future.	Goals should be prepared by monitoring quantitatively and financially.

4.2 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
As per the 5.1.3 of PED 12 Government enterprise Circular dated 02 June 2003 an action plan based on the corporate Plan was not prepared for the year under review.	Will be prepared for the future years.	Should prepare an annual action plan

4.3 Internal Audit

Audit Observation	Comments of the Management	Recommendation
According to the No. 133 financial regulation circular of the Democratic Socialist Republic of Sri Lanka and Circular No. DMA / 2009 / (1) dated 09 June 2009 an Internal Audit Unit was not been established and the Line Ministry's internal audit has not done any audit regarding the Fund's transactions and operations.	Action will be taken to establish an internal audit unit in the future.	Must act in accordance with the circulars and be audited by the Internal Audit Unit of the Ministry.

4.4 Audit Committee

Audit Observation	Comments of the Management	Recommendation
Government auditor was not invited for audit committee meetings on the year under review.	This will take actions about that in future meetings.	The Government Auditor should be invited as an observer at the Audit and Management Committee meetings.