

National Wealth Corporation Limited and its subsidiary - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Wealth Corporation Limited (“Company”) and the consolidated financial statements of the Company and its subsidiary (Group) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, 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(1) 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 Company and its subsidiary (Group) as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Emphasis of Matter

I draw my attention to Note 1.3 to the financial statements. As stated in the note, the Company’s parent undertaking and controlling party is Mahapola Higher Education Scholarship Trust Fund which is operated by the Government of Sri Lanka. The Cabinet of Ministers at its meeting held on 28 August 2018 has taken a decision to liquidate the National Wealth Corporation Limited and sell the NatWealth Securities Limited to another investor under the approval of the Central Bank of Sri Lanka. On 26 February 2020 a fresh Cabinet Memorandum has been submitted to amend the above Cabinet Decision as to sell only 49 percent share capital of Natwealth Securities Limited and to suspend the liquidation of National Wealth Corporation Limited until the restructuring process of Natwealth Securities Limited is completed. However, on 26 October 2020 another Cabinet Decision has been taken to liquidate both the companies of National Wealth Corporation Limited and Natwealth Securities Limited.

The Monetary Board of the Central Bank of Sri Lanka (CBSL) has suspended the Company from carrying on the business and activities of the primary dealer for a period of six month with effect from 31 May 2020. Subsequently the Board of the Company decided to withdraw the primary dealer license with effect from 01 December 2020 in line with the Cabinet Decision taken on 26 October 2020 to liquidate both the companies. By considering the decision of the Board of Directors the Monetary Board of the Central Bank of Sri Lanka decided to withdraw the appointment granted to NWSL to function as a primary dealer with effect from 01 December 2020. My opinion is not modified in respect of these matters.

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

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company and the Group are 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 Company and the Group.

1.4 Auditor's Responsibility 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 Group'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 Group'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 Group 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 Group, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Group have complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Group have performed according to its powers, functions and duties; and
- Whether the resources of the Group 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 the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
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Nat Wealth Securities Limited

Contrary to paragraph No 42 of Sri Lanka Accounting Standard on Accounting Policies, Changes in Accounting Estimates and Errors (LKAS 08) ,the Company has accounted an Income Tax Liability of Rs.304,536,754 relevant to 2009/2010, 2010/2011, 2011/2012, 2013/2014, 2014/2015 and 2015/2016, and a Value Added Tax liability of Rs.100,895,298 relevant to 2013, 2014 and 2017/2018 during the year under review.	As NWSL filed tax returns as per the provision of the income tax act that primary dealer (PD) are not liable for income tax on secondary market transaction but DIR not accepted it and keep on issuing the assessment for each year from 2014 onwards. The company filed the returns on the above basis and the tax liability was calculated as receivables from NWSL. The final action made an appeal in TAC and cases were continued 4 to 5 years. Therefore, all these receivable were shown in the financial statements as receivables for 4 to 5 years.	The standard should be followed.
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1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) A value of Rs.1,756,755 paid as an advance for buildings and set off during the year under review had been shown in the accounts as an advance.	Advance payment on building rent of Rs.1,756,755/- were made as per the building rent agreement in April 2018. This Advance payment set off against the O/S rent and completed the transactions in April 2021. But, this was not taken to the accounts in 2021 and this will be taken to the financial statements in 2022.	Advances set off should be adjusted in the accounts.
(b) An employee of the Company had been entered into an illegal transaction worth of Rs.15,434,850 with the Commercial Bank of Ceylon Limited since 2016. Further the Company had made a complaint in Criminal Investigation Department (CID) on 24 December 2019. However, this matter had not been disclosed in the financial statements.	As per the complaint lodged by the company CID has initiated the investigation and ex-employee has accepted the misuse of the company funds and gave the statement to CID as agreed to pay the full amount in installments value of Rs.400,000/- each and one instalment was paid 31.12.2021. after that he has not been paid the agreed installments to NWCL. CID continue the investigation and custody the employee and produce to the Court and the Court held that and released on bail, now the case is hearing in MC court.	Material legal transactions should be disclosed in the financial statements.

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(c) Rs.5,573,700 worth of legal and other professional fees relevant to the year 2020 had been accounted under administrative expense for the year under review. Agreed Expenses incurred for previous years should not be accounted as the expenses of the year under review.

1.5.3 Unreconciled Control Accounts or Records

Item	As per Financial Statements Rs.	As per corresponding Record Rs.	Difference Rs.	Management Comment	Recommendation
(a) Investments in Subsidiary	1,148,600,000	1,175,000,070	26,400,070	The Bonus issues made by NWSL on the shares of NWCL using the reserves has not been taken to accounts of NWCL amounting to Rs.26,400,070/- even the share certificates were received to NWCL. This adjustment will be made in the accounts of NWCL in the year 2022 (31.12.2022) increasing the investment value of NWCL.	The Value as per financial statement should be tallied with the value as per corresponding reports.
(b) Payable to - Mahapola Higher Education Scholarship Trust Fund	-	3,496,345	3,496,345	Intercompany accounts have not been reconciled in the year 2021. This reconciliation will be done and rectify the omission in the year 2022.	Intercompany balances should be reconciles and accounted.

1.5.4 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
Nat -Wealth Securities Limited				
Repo Investments	94,304	Deposit certificates	This will be unidentified balance. The Board of Directors will be decided to write off from the accounts as the company is call for liquidation.	Documents to confirm the balance should be maintained.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) Income tax receivable as at 31 December 2021 was Rs.13,044,600 and it is observed that the value of Rs.12,962,617 had been outstanding for more than 05 years.	Agreed. Tax refund applied and NWCL is working for expedite the refund with DIR.	Receivable balances should be recovered without delay.
(b) According to the Financial Statements for the year 2021, other receivables amounting to Rs.14,730,273 had been outstanding for a period of 03 years.	Not replied	-do-

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 20,169,509 and the corresponding profit in the preceding year amounted to Rs. 48,294,511. Therefore a deterioration amounting to Rs.68,464,020 of the financial result was observed. The reasons for the deterioration is decrease of investment income by Rs.60,158,620 and increase of finance cost by Rs. 40,847,253 against the decrease of administration cost by Rs. 19,947,244.