

Mahapola Higher Education Scholarship Trust Fund – 2014

The audit of operations of the Mahapola Higher Education Scholarship Trust Fund for the year ended 31 December 2014 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 Section 13(1) of the Finance Act, No.38 of 1971 and Section 10(4) of the Mahapola Higher Education Scholarship Trust Fund Act, No.66 of 1981. The financial statements for the year 2014 which should be presented in terms of Section 13(6) of the Finance Act, had not been presented even by 24 July 2017. Only my observations which I consider should be presented to Parliament on the performance of the Fund for the year under review in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements of the Trust Fund in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

2. Financial Statements

2.1 Presentation of Financial Statements

The following observations are made.

- (a) In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements and the Draft Annual Report should be presented to the Auditor General within 60 days after the close of the year of accounts. Nevertheless, the financial statements from the year 2013 up to the year 2016 had not been presented to Audit.
- (b) Even though the financial statements of the Fund should be consolidated with the financial statements of the Sri Lanka Institute of Information Technology (SLIIT), which is established as a company Limited by Guarantee, on matters such as investing the total capital of Rs.373,500,000 of the said Institute by the Trust Fund, representing Heads of Government Institutions by the members of the Board of Directors of the said Institute and intervention of the Trust Fund in its financial and operating activities, the Trust Fund had prepared consolidated financial statements for the year of accounts of 2012 for the first time.

2.2 The Existence of Assets and Liabilities

The details on assets, liabilities, income and expenditure shown in the financial statements as at 31 December 2012 prepared by the Trust Fund for the last time, are given below.

Item in the Financial Statements	Value
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	Rs.
Assets	

Non-current Assets	10,394,883,490
Current Assets	4,348,718,920

Total Assets	14,743,602,410
	=====
Liabilities	

Current Liabilities	4,968,870,590
Non-current Liabilities	33,240,119

Total Liabilities	5,002,110,709
Net Assets/Ownership	9,741,491,701

	14,743,602,410
	=====
Total Income	2,749,622,769
Total Expenditure	1,925,706,140

Surplus	823,916,629
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2.3 Lack of Evidence for Audit

Confirmations and evidence indicated against the following Items of Accounts had not been made available to Audit.

Item	Value	Evidence not made available
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	Rs.	
(i) Investments	6,530,353,720	Fixed Deposit Certificates or other documents of confirmation
(ii) Investment of Preference Shares	200,000,000	Share Certificates or other documents of confirmation
(iii) Investment of the Development Lotteries Board	2,200,000	Share Certificates or other documents of confirmation
(iv) Mahapola Mangatha Lottery	-	Letters of Intent

2.4 Non-compliances with Laws, Rules, Regulations and Management Decisions

In terms of Section 7.4.1 of Public Enterprises Circular No. PED/12 of 02 June 2003, audit committees should be held once in 3 months. However, action had not been taken to hold those committees in the year under review.

3. Operating Review

3.1 Performance

In terms of the Mahapola Higher Education Trust Fund Act, No.66 of 1981, the objectives of the Trust Fund are given below.

- (i) to provide higher educational facilities to youth;
- (ii) to provide assistance to deserving youth who have completed their secondary education satisfactorily, so as to enable them to complete their academic, industrial or technical education at a University or technical or higher educational institute, as the case may be;
- (iii) to set up and assist in the setting up and management of vocational training institutes for enabling youth to develop their vocational skills and competence;
- (iv) to set up and assist in the management and conduct of schools, institutes, foundations and similar institutions engaged in the furtherance of education; and
- (v) 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.

The installments on the Mahapola Scholarships not obtained by the students relating to the year under review totalled Rs.21,205,800 and out of that, sums of Rs.5,903,250 and Rs.19,200 had been retained over a period of 5 months and over a period of 9 months respectively and returned to the Fund. The Fund had not followed an appropriate procedure in getting back the unpaid installments on scholarships without delay. As such, the Fund had been deprived of the opportunities of receiving benefits that could have been earned from effective investment of such money.

3.2 Management Activities

The following observations are made.

- (a) According to Condition 5(j)(1) of the Agreement entered into between the Sri Lanka Institute of Information Technology and the Trust Fund, 20 per cent of the annual net profit of that Institute or Rs.8,000,000, whichever is more, should have been recovered as the lease rent for the land leased out to the Institute of Information Technology on long term lease basis. Even though the amount recoverable from the year 2006 to the year 2014 amounted to Rs.207,784,617, only a sum of Rs.120,290,945 had been recovered. As such, necessary steps had not been taken for the recovery of outstanding lease rental amounting to Rs.87,493,672.
- (b) Agreements had been entered into on 30 July 2013 on the decision taken at the Meeting of the Cabinet of Ministers held on 11 July 2013 to implement the Mangatha Lottery again and the implementation of lottery had been assigned to a private company. According to Conditions and Clauses of the relevant Agreement, a sum of Rs.250,000,000 was receivable for quarters beginning from 01 August and 01 November 2014. Nevertheless, that amount had not been received even by 16 March 2017. Further, according to Section 6.5 of the Agreement, penalty for delays should be charged on non-receipt of income at the beginning of the due quarter. However, action had not been taken to recover penalty for delays amounting to Rs.15,000,000 recoverable as at 31 December 2014.
- (c) A sum of Rs.1,659,546 made under provisions of the School Development Fund for the various development activities in 5 schools of which works had been completed by 22 June 2011, had not been taken into income even by 15 March 2017.
- (d) Sums of Rs.288,000 and Rs.3,747,776 had been paid without a lease agreement for the cleaning service and as the building rent respectively for the sixth floor of the building belonging to the Co-operative Wholesale Establishment (SATHOSA) in which the office of the Trust Fund had been functioned.

3.3 Transactions of Contentious Nature

Sums of Rs.54,285,000 and Rs.53,704,200 had been spent in the year under review and the preceding year respectively for awarding scholarships for Advanced Level students, which is not an objective of the Trust Fund and particulars on the basis on which students are selected for scholarships, the manner in which bursary is determined and the number of scholarships awarded annually, had not been made available to Audit.

4. Accountability and Good Governance

4.1 Internal Audit

An Internal Audit Unit had not been established in terms of Financial Regulation 133 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka and Management Audit Circular No. DMA/2009(1) of 09 June 2009 and attention had not been paid in carrying out audit even by the Internal Audit Unit of the Ministry.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Trust Fund from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls

Observations

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| (a) Management of Investments | Failure in obtaining proper approval and follow up action. |
| (b) Management of Mahapola Scholarship Funds | Failure in the recovery of unpaid installments on scholarships. |