

National Wealth Corporation Limited and its subsidiary - 2020

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the National Wealth Corporation Limited (“Company”) and the Consolidated Financial Statements of the Company and its Subsidiaries (“Group”) for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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, the accompanying financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Emphasis of Matter

I draw attention to Note 1.3 to the financial statements. As stated in the above note, the Company’s parent undertaking and controlling party is Mahapola Higher Education Scholarship Trust Fund (MHESTF) which is operated by Government of Sri Lanka. The Cabinet of Ministers at its meeting held on 28th 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 Central Bank of Sri Lanka.

On 26th 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 12th October 2020 another cabinet decision has been taken to liquidate both 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 months with effect from 31st May 2020. Subsequently the Board of Directors of the company decided to withdraw the Primary dealer license with effect from 01st December 2020 in line with the cabinet decision taken on 12th October 2020 to liquidate the both 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 functions as a Primary Dealer with effect from 01st December 2020. My report is not modified in respect of these matters.

1.2 Basis for Opinion

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

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

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

1.4 Audit Scope

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 skepticism 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 Company’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 Company 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company 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 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.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted a profit of Rs.48,294,511 and the corresponding profit in the preceding year amounted to Rs.221,452,197. Therefore a deterioration amounting to Rs.173,157,686 of the financial result was observed. The reasons for the deterioration are decrease in investment income and other operating income by Rs.33,940,077 and capital loss from revaluation of dealing securities by Rs.162,913,302.

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue -----	Management Comment -----	Recommendation -----
An employee of the Company had been involved fraudulent transactions valued at Rs.15,435,000 with a Commercial Bank since 2016. However, the Company had revealed these illegal transactions in year 2019 and the Company had made a complaint in the Criminal Investigation Department (CID) on 24th December 2019. However this matter had not been disclosed in the financial statements.	As this revealed in December 2019, the investigation was carried out by the Ex.CEO of NWSL due to Covid-19 situation the investigation and domestic inquiry was got delay. Therefore, the amount that had been involved the fraud identified in Dec 2020. So therefore, it had not been included in the financial statement of NWCL as at 31 st DEC 2020. Further, this item will be indicated in the financial year 2021 with the special note on the progress of the CID investigation and the amount of fraud committed by the Ex.staff members as recoverable item in the financial statements.	The company should be disclose about this matter in the financial statement.