

## **Mahapola Higher Education Scholarship Trust Fund - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Mahapola Higher Education Scholarship Trust Fund 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 and Finance Act No. 38 of 1971. 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 Fund as at 31 December 2021, 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**

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My opinion is qualified based 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**

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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 Auditor's Responsibility for the Audit of the Financial Statements

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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 risk of material misstatement in 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 management's use of the going concern basis of accounting and based on the audit evidences obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements including 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 Audit observations on the preparation of financial statements

### 1.5.1 Non- Compliance with Sri Lanka Accounting Standards.

Non – compliance with the reference to particular standard	Management Comment	Recommendation
<b>(a) Sri Lanka Accounting Standard No. 07</b>		
(i) Even though Rs. 1,157,299,900 of the interest income and Rs. 1,307,590,803 of the interest received in cash should have been disclosed separately in the cash flow statement in terms of the paragraph 31, it had not been shown by the Trust Fund in such manner.	Measures are taken to correct the interest earned on the amount for the period in the financial statements according to the relevant accounting standards in the statement of cash flows.	Sri Lanka Accounting Standards Should be followed.
(ii) Even though Rs.772,000 worth of property, Plant and Equipment owned by the trust fund were transferred to the Ministry of Trade at cost value, an amount of Rs.772,000 was mentioned as profit on the sale of Property, Plant and Equipment in the statement of cash flow.	No comments were made.	Sri Lanka Accounting Standards Should be followed.
<b>(b) Sri Lanka Accounting Standard No. 08</b>		
In terms of the paragraph 49, even though the nature and amount of related adjustments should be disclosed with the financial statements in making adjustments with respect to previous years by entity, adjustments related to the previous period with the total value of Rs.157,863,504 adjusted by the Trust	This will be corrected in the financial statements.	Sri Lanka Accounting Standards Should be followed.

Fund was not disclosed in the financial statements ,and no schedule relating to adjusted total was submitted to audit.

**(c) Sri Lanka Accounting Standard No. 40**

Even though the investment assets should be assessed at present value in terms of the paragraph 06, 25 acres of land in Malabe owned by the Trust Fund and was accounted for Rs.12,460,179 in the year 2005 had not been assessed at current value and taken into books even by the year under review.

Assets for the year under review have not been reconciled in the accounts to their present value on non-facilitation of obtaining valuation reports for assets by the Board of Management of SLIIT.

Sri Lanka Accounting Standards Should be followed.

**1.5.2 Accounting Deficiencies**

**Audit Observation**

(a) Even though the profit share due from the Development Lottery Board was Rs.1,263,928,947 as at 31 December 2021 according to confirmations received from the President's Fund, it was understated by Rs.33,928,947 and shown as Rs.1,230,000,000 in the financial statements.

(b) From year 2013 to the year under review, the consolidated financial statements were not prepared by the two companies i.e. National Wealth Corporation and NatWealth Securities, two management companies fully owned by the Trust Fund, and submitted for audit.

**Management Comment**

The total profit of the Development Lottery Board includes the net lottery revenue and unclaimed prize money. The unclaimed prize money is credited to the President's Fund, and its 50% share is not credited to Mahapola Fund. Accordingly, the Mahapola Fund does not receive 50% share of the total profit mentioned in the revenue reports of Development Lottery Board. Accordingly, the difference shown is the share of unclaimed prize money.

This was discussed in the Committee on Public Enterprises, and informed to prepare and submit consolidated accounts from the year 2019. Accordingly, it was assigned to an Audit firm to prepare the consolidated accounts. The accounts of the Mahapola Fund and the accounts of the 2 companies were submitted for audits separately, and the final annual reports have also been submitted to the Parliament

**Recommendation**

The correct profit share should be ascertained and brought in to accounts.

Consolidated accounts should be prepared and submitted for audit as recommended by the Committee in Public Enterprises.

continuously until the year 2020 since it has been decided to liquidate these 2 companies from the year 2019.

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| <p>(c) Rs. 219,431,931 of Interest income receivable for Treasury Bonds as at 31 December 2021 was not brought to accounts in financial statements as income receivable.</p>  | <p>No comments were made.</p> | <p>Income receivable should be accurately brought to accounts.</p>                |
| <p>(d) The amount due to the fund for transferring a part of office equipment taken over from managed companies to the Ministry of Trade is Rs.1,021,450 ,which is understated by Rs. 249,450 as Rs. 772,000 and shown under other receivables in the Financial statements.</p> | <p>No comments were made.</p> | <p>Cash receivables should be accurately brought to accounts.</p>                 |
| <p>(e) Rs.870,000 paid to a private institute for the video report of the Mihintale Town Project was debited to the Travel expenses account . Accordingly, the expenditure related to Mihintale Town Project was understated by Rs.870,000 in the financial statements.</p>     | <p>No comments were made.</p> | <p>Transactions should be properly brought to accounts.</p>                       |
| <p>(f) There was a difference of Rs.5,100,000 each between the ledger account balances and the Motor Vehicle balance and the Provision for Depreciation Account balance as at 31 December 2021 according to the financial statements.</p>                                       | <p>No comments were made.</p> | <p>Differences should be compared and the correct value should be identified.</p> |

## 1.6 Accounts receivable and Payable

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### 1.6.1 Cash Receivables

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#### Audit Observation

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No measures were taken to recover a refundable rental deposit of Rs.348,810 ,given by the Fund to CWE for use of the Co-operative Wholesale Establishment (CWE) building on rental basis, even after 05 years since leaving that building.

#### Management Comment

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Even though measures were taken to recover the sum of Rs. 348,810 by sending letters from time to time and related bank statements, arrangements have not yet been made by the Co-operative Wholesale Establishment to deliver the amount to us.

#### Recommendation

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Arrangements should be made to recover the cash receivables promptly.

### 1.6.2 Cash Payable

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#### Audit Observation

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An amount of Rs. 3,832,875 withheld for the construction work done in several schools was stated the financial statements remained unchanged in a period of 08 years from year 2013 till now, and no settlement was made during the year under review.

#### Management Comment

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The bills related to the settlement of this amount and the reports related to the completion of the related works have not yet been submitted by the contractors. Accordingly, payments could not be made due to deficiencies in the procurement process and creditors' bills not being submitted.

#### Recommendation

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Arrangements should be made to settle the payables promptly.

## 2. Financial Review

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### 2.1 Financial Result

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The operating result of the year under review amounted to a surplus of Rs. 1,292,729,814 and the corresponding surplus in the preceding year amounted to Rs. 1,085,347,967. Therefore an improvement amounting to Rs. 207,381,847 of the financial result was observed. The reason for the improvement is the decrease in direct expenses by Rs.338,463,816 (24 percent) compared to preceding year.

### 3. Operational Review

#### 3.1 Annual Action Plan

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
An action plan was not prepared by the Fund for the year under review.	An annual action plan has been prepared for the year 2022.	Action plans should be prepared annually.

#### 3.2 Identified Losses

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
A van had been acquired by the fund from a private company at a price of Rs. 132,500 monthly without VAT under operating lease system on the basis of driving 3 000 km in a month within a contractual period of 60 months from 21 September 2017 to 20 September 2022. However, 51 months had passed since the acquisition of the relevant van and despite that having the ability to drive 153,000 km at 3,000 km per month for the amount spent during that period, only 116,456 km had been driven. As a result of driving a low mileage of 36,544 km without completing the minimum driving distance, the van that acquired without identifying the need correctly, the trust fund had incurred a financial loss of Rs.2,381,762.	Vehicle was not driven within 2 ½ years due to the temporary closure of the office because of the Covid-19 pandemic situation. As the car was not driven, approximately Rs. 4 lakhs of fuel cost was saved to the fund.	Leasing agreements should be entered into only after the need for vehicles has been properly identified.

#### 3.3 Management Inefficiencies

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
The following recommendations given at the Committee on Public Enterprises held on 08 January 2021 have not been implemented so far.  (i) Even though members were appointed for the Board of Trustees of the Fund and	The Trust Fund Act (Amendment) was gazetted on	Measures should be taken in

requests have been made to the Ministry for the appointment of a Chairman, no appointments have been made so far.

14 January 2022 and the relevant request regarding the appointment of the Chairman has already been forwarded to the Ministry of Trade. It is quite late under the prevailing situation in the country.

collaboration with the Ministry for implementation of the recommendations of the committee.

(ii) Necessary actions have not yet been taken to amend the Development Lotteries Board Act so as to receive a 50 per cent share of the profits of the Development Lottery Board to the Trust Fund.

Measures were taken to hold discussions in this regard and prepare and submit the drafts, and the approval of the Minister of Trade and the President's Fund has not yet been received for the same.

Cooperate with the Ministry for expedite implementation of the recommendations of the COPE Committee.

(iii) Even though instructions were given to conduct an internal inquiry regarding the financial fraud related to online Lottery, the investigation has not yet been completed.

Letter of demand has been sent in order to recover Rs.750 million payable by the lottery operator as per the agreement and the related legal interest in this regard. An arbitral tribunal will be appointed by the lottery operator for arbitration in terms of the agreement, and measures will be taken to recover a sum of Rs. 750 million receivable to the Mahapola Fund and the legal interest on the same.

Arrangements should be made promptly to get the amount receivable to the trust fund.

### 3.4 Procurement Management

#### Audit Observation

Even though Rs. 500,000 had been allocated for the procurement of additional space for the Mahapola office complex according to the procurement plan, an expenditure of Rs. 859,305 was incurred for its advertising only during the year under review, and despite Rs.300,000 has been allocated for advertising, Rs. 804,978 had been spent on advertising and publication of newspaper advertisements.

#### Management Comment

No comments were made.

#### Recommendation

The procurement plan should be prepared accurately and should be used as an effective control tool.



### 3.5 Human Resources Management

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#### Audit Observation

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Even though the approved cadre of the Trust Fund was 31, the actual cadre as at 31 December 2021 was 13 thus 18 posts were vacant, and those vacancies were consisted of 06 senior level posts, 06 secondary level posts and 06 primary level posts. Those vacancies were not filled up to the end of the year under review, and 02 out of 06 senior level vacancies had been filled by April 2022.

#### Management Comment

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Even though the approved cadre of the Trust Fund was 31, relevant recruitments are made taking the available space and need of the Fund into consideration. It is not practical to fill all the vacancies as recruitment is restricted as per government circulars. The Board of Trustees had given the approval to recruit for 4 vacant posts at the secondary level, and necessary actions are being taken for the same. Further, trainees are recruited from vocational training institutes continuously to support secondary level posts to cover vacancies available at present.

#### Recommendation

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Arrangements should be made to hire at least the minimum cadre required to fulfil the needs of the fund.