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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்

AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

TCM2/F/MTF/6/13/52

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

14 August 2017

The Chairman,

Mahapola Higher Education Scholarship Trust Fund



Report of the Auditor General on the Transactions of the Mahapola Higher Education Scholarship Trust Fund for the year ended 31 December 2013

The audit of operations of the Mahapola Higher Education Scholarship Trust Fund for the year ended 31 December 2013 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 2013 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

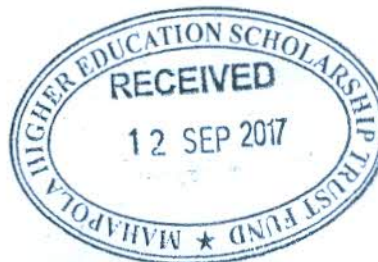
Management is responsible for the preparation and fair presentation of the financial statements of the Trust Fund in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from 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 consolidated financial statements had not been presented to Audit from the year 2013 up to the year 2016.
- (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.



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

Item



Value

Evidence not made available

Rs.

- | | | | |
|-------|---|---------------|---|
| (i) | Investments | 5,860,541,686 | 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.

2.5 Transactions not supported by Adequate Authority

In the forty sixth meeting of the Board of Trustees held in the year 2005, the School Development Fund had been established according to the Trust Decision No.45/02 and out of the balance of the Fund as at 01 January 2013 amounting to Rs.573,722,672, a sum of Rs.252,722,672 had been written off against the Income Account without the approval of the Board of Trustees. Savings of Rs.1,659,546 from the provisions relating to 5 schools which had been constructed by the School Development Fund and completed development work by 22 June 2011, had been retained as provisions without taking to the income.



3. Operating Review

3.1 Performance

According to the Mahapola Higher Education Scholarship Trust Fund Act, No.66 of 1981, the objectives of the Trust Fund are as follows.

- * To provide higher educational facilities to youth;
- * 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;
- * 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;
- * To set up in the management and conduct of schools, institutes, foundations and similar institutions engaged in the furtherance of education;
- * To provide assistance for the development and improvement of skills and competence of lecturers, teachers and such persons engaged in the furtherance of education;

The following observations are made.

- (a) The Mahapola Scholarship installments not obtained by students relating to the year under review totalled Rs.19,079,800 and out of that, sums of Rs.7,194,600 and Rs.89,900 had been retained for over periods of 5 months and 9 months respectively and returned to the Fund. The Fund had not followed an appropriate procedure in getting back the unpaid scholarship installments without delay. As such, the Fund had been deprived of the opportunity of receiving benefits that could have been received by investing those monies in an effective investment.
- (b) The Trust Fund had not prepared proper methodologies and criteria in selecting schools that should be developed by the School Development Fund, established with a view to incurring capital expenditure for structural



improvements and constructions of Government schools. Only a sum of Rs.302,395,007 representing 45.5 per cent had been spent for development activities of 32 schools out of the interest income amounting to Rs.664,834,326 earned by investing a sum of Rs.221,000,000 out of the Schools Development Fund since the year 2005.

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 the sum of Rs.8,000,000 whichever is more, should have been recovered as the lease rent for the land leased out on lease basis to the Institute of Information Technology. As such, the amount recoverable from the year 2006 up to the year 2013 amounted to Rs.202,626,450. However, only a sum of Rs.120,290,945 had been recovered and necessary steps had not been taken to recover the outstanding lease rent amounting to Rs.82,650,375.
- (b) The office of the Trust Fund had been functioned in the sixth floor of a building belonging to the Co-operative Wholesale Establishment and the lease rent paid in the year under review without a lease agreement and an assessment report amounted to Rs.3,742,777 and a sum of Rs.288,000 had been paid for the cleaning service obtained from the Co-operative Wholesale Establishment.

3.3 Transactions of Contentious Nature

Sums of Rs.53,704,200 and Rs.49,485,000 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.



3.4 Procurement and Contract Process

The following observations are made.

- (a) A sum of Rs.68,389,507 had been spent from the School Development Fund for development activities of 3 schools in the Kurunegala District and one school in the Galle District in the year under review and the approval of the Board of Trustees had not been granted for three projects out of them. Moreover, the following common deficiencies were observed in awarding contracts in these projects.
- (i) Even though the maximum mobilization advance payable is 20 per cent out of the contract value according to Guideline 5.4.4 of the Government Procurement Guidelines, advances had been paid ranging from 33 per cent to 50 per cent out of the contract value of Rs.46,851,200.
 - (ii) Contracts of 3 projects had been awarded to the Co-operative Wholesale Establishment (SATHOSA), deviating from the procurement process and that contract had been awarded to the sub-contractors by the Co-operation without the approval of the Board of Trustees even before entering into agreements.
 - (iii) In terms of Guideline 5.4.8 of the Procurement Guidelines, performance securities relating to 2 projects had not been obtained and retention money had not been deducted in the payments made to the contractor relating to 2 projects in terms of Guideline 5.4.6.
 - (iv) Provisions had not been made in the agreements on the period of completion of works of these projects and the liquidated damages recoverable. As such, the opportunity of recovery of liquidated damages for the period of delay had been missed.



(b) The matters observed relating to the constructions of the above projects are as follows.

(i) The estimated amount for the construction of the playground and the swimming pool of St. Anne's College, Kurunegala was Rs.32,500,000 and the actual expenditure amounted to Rs.64,287,501. A Cost Report or a Bill of Quantities, on which the constructions were based on, was not available and the reasons for the increase of the actual expenditure, even more than the double of the estimated amount were not studied. Provisions had been made for 03 projects identified as laying the turf for cricket, preparation of the playground and construction of the swimming pool. The following matters were further observed in this connection.

➤ According to Guidelines 2.7 and 2.8 of the Procurement Guidelines, Procurement Committees and Technical Evaluation Committees had not been appointed in selecting contractors, suppliers and a Consultant for the projects. The details on qualifications and service experience of the person who had been appointed as Consultant, deviating from the Procurement Process had not been made available to audit.

➤ According to the agreement entered into between the Constructions Consultant and the Trust Fund on 01 March 2012, the amount payable to the Consultant as allowance at the rate of Rs.100,000 per month, subjected to a minimum of 4 per cent of the project cost amounted to Rs.813,193. Nevertheless, a sum of Rs.2,312,000 had been paid and as such, a sum of Rs.1,498,087 had been overpaid.

➤ In terms of Guideline 5.3.4 (c) of the Procurement Guidelines, the contract should not be awarded to the Consultant who was engaged in service for the preparation of Bidding Documents. However, the Trust had awarded the contract to the Consultant who had prepared the Bill of Quantities of this contract.



- According to the agreement, it was mentioned that the Project Consultant himself should decide on the order of raw materials and the quality, quantity and price. As such, it was observed that the functions of the service of Consultant had not been precisely identified.
 - An allowance totalling Rs.233,333 had been paid at the rate of Rs.20,000 per month to a Site Manager who had been appointed on contract basis for the Project on Construction of the Playground without obtaining approval from the Board of Trustees.
 - Even though this construction had been decided to be carried out on a works of a special nature named "Turnkey Contracts", according to Guidelines 3.10 and 3.11 of the Procurement Guidelines, in selecting the contractor, Two Stage Bidding Procedure or Two Envelope System had not been adhered to. The contractor had been selected without checking the Pre- qualifications of the selected bidder and a formal agreement had not been entered into in respect of the contract.
 - The contract of constructing tube wells had been awarded to a private firm, deviating from the Procurement Process and an expenditure of Rs.824,127 unapproved by the Board of Trustees had been incurred.
 - According to Decision No.53/08 of the Board of Trustees, the contract of Rs.3,468,640 of supplying water to the playground had been awarded to a private company, deviating from the Procurement Process.
- (ii) The estimated amount for completion of the remaining work of the auditorium of the Sir John Kotalawala Vidyalaya, Kurunegala was Rs.19,000,000 and the amount spent was Rs.18,354,576. The following matters were observed in this connection.



- The Department of Engineering had not prepared the total cost estimate based on the standard building rates and the contractor's quotations had been applied for certain items.
- According to the approved Bill of Quantities, the estimate amounted to Rs.14,700,000. However, in entering into agreements, the cost estimate had been shown as Rs.19,000,000, overstating by Rs.4,300,000.
- According to Condition 07 of the contract agreement, it had been agreed to submit the reports on progress relating to constructions along with proper certifications monthly to the Trust Fund. Nevertheless, reports on certification of works had not been submitted for a sum of Rs.13,000,000 paid by 25 March 2014.
- The relevant contractor had not presented himself even by 06 July 2015 to repair the shortcomings such as the cracks in the ceiling, defects in the electrical system and cracks on the glasses of doors. As such, the constructions of the auditorium could not be completed and handed over to the Principal with certificates of guarantee.

(iii) Even though the engineering cost estimate submitted for the swimming pool of Richmond College, Galle amounted to Rs.15,500,000, in entering into agreements, it had been shown as Rs.20,000,000, overstating by Rs.4,500,000. Moreover, a payment of Rs.20,192,302 had been made without the Engineer's certificate for work fulfilled contrary to Clause 03 of the agreement entered into by the Trust Fund with the Co-operative Wholesale Establishment.



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 an 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

(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.
(c) Contract Administration	Failure in adhering to the Procurement Process.

H.M. Gamini Wijesinghe

Auditor General

Sgd./ H.M. GAMINI WIJESINGHE
Auditor General