

Bank of Ceylon - 2013

The audit of the financial statements of the Bank of Ceylon (Bank) and the consolidated financial statements of the Bank and its subsidiaries (Group) for the year ended 31 December 2013 comprising the statements of financial position as at 31 December 2013, the statements of income, statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory information, 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. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice. The financial statements of the subsidiaries were audited by the firms of Chartered Accountants in public practice appointed by the members of the respective subsidiaries.

This report is issued in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Special Statutory Provisions for Bank

The Bank has been exempted from the provisions of Part II of the Finance Act, No. 38 of 1971 by an order of then Minister of Finance published in the Government Gazette No. 715 of 14 May 1992 by virtue of powers vested in him by Section 5 (1) of the said Finance Act. The Bank is also exempted from all Treasury and Public Administration Circulars as decided by the Cabinet of Ministers and conveyed by the Secretary to the Treasury by his Circular No.EA02/BC/PB/01 dated 10 April 1992.

1.3 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

1.4 Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on the audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purposes of my audit. I therefore believe that my audit provides a reasonable basis for my opinion.

2 Financial Statements

2.1 Opinion

In my opinion so far as appears from my examination, the Bank had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the Bank's financial position as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In my opinion, the consolidated financial statements give a true and fair view of the financial position as at 31 December 2013 and its financial performance and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Bank.

2.2 Comments on Group Financial Statements

2.2.1 Group Financial Statements and Basis of Consolidation

The financial statements of the Bank comprised the consolidation of the financial statements of the Domestic Banking Unit, the Off Shore Banking Unit, Islamic Banking Unit and the Foreign Operations that are an integral part of the Bank. The Group financial statements comprised consolidation of the financial statements of the Bank, its Subsidiaries and Associates in compliance with Sri Lanka Accounting Standards (SLAS).

The position of the investments of the Bank as at 31 December 2013 and as at the end of the preceding year in each company were as follows.

Name of the Company	Investment	
	2013	2012
Subsidiaries	Rs. million	Rs. million
Quoted		
Property Development PLC	776	740
Merchant Bank of Sri Lanka PLC	2,123	2,123
Unquoted		
BOC Management and Support Services (Pvt) Ltd	1	1
BOC Property Development and Management (Pvt) Ltd	1,010	1,010
BOC Travels (Private) Ltd	2	2
Hotels Colombo (1963) Ltd	101	101
Merchant Credit of Sri Lanka Ltd	132	22
Ceylease Financial Services Ltd	-	110
Bank of Ceylon (UK) Ltd	2,684	2,684
Total Investments in Subsidiary Companies	6,829	6,793

Associate Companies

Unquoted

Transnational Lanka Records Solutions (Pvt) Ltd	20	20
Ceybank Asset Management (Pvt) Ltd	31	31
Southern Development Financial Company Ltd	25	25
Mireka Capital Land (Private) Ltd	750	750
Lanka Securities (Private) Ltd	42	42
Total Investments in Associate Companies	868	868
Less-Provision for impairment	(25)	(25)
Net Investments in Associate Companies	843	843
Total Investments	7,672	7,636

2.2.2 Directors' Interest in Contracts with the Bank

According to the information made available, non Director of the Bank was directly or indirectly interested in any contracts with the Bank during the year ended 31 December 2013 other than those disclosed in Note No: 55 to the financial statements.

2.3 Comments on Financial Statements of the Bank

2.3.1 Sri Lanka Accounting Standards (LKAS)

The Bank had considered local and foreign cheques purchased from the customers as non-financial assets under the disclosure of “Analysis of financial instruments by measurement basis”. However, according to the LKAS 39 (Financial Instruments - Recognition and Measurement) those should be treated as Loans and Receivables in the financial statement disclosures under the analysis of financial instruments by measurement basis.

2.3.2 Accounting Policies

The following observations were made.

- a) As stated in the accounting policies, freehold and leasehold properties should be revalued every seven years on a roll over basis. However, the properties of the Kamburupitiya and Weeraketiya Branches had not been revalued by the Bank.
- b) The Bank carried fully depreciated fixed assets other than land and buildings and fully amortized intangible assets amounting to Rs. 4.5 billion and Rs. 1.38 billion respectively as at 31 December 2013 which were being used by the Bank without considering its estimated useful life as stipulated in the accounting policies.

2.3.3 Accounting Deficiencies

An Italian company had paid a sum of Euro 691,893 (approximately Rs. 125 million) through BoC EUR Nostro account. Later, it was found that the instructions given to the corresponding bank was fraudulent and not in line with the agreed upon instructions to effect the fund transfers by the Bank.

Due to the above dispute, the Bank statement of the corresponding Bank had shown an unfavourable balance of Rs. 86 million, Whereas the Bank had shown a favourable balance of Rs. 39 million as at 31 December 2013.

2.3.4 Unreconciled and Unidentified Differences

The following observations were made.

- a) The following unreconciled differences were observed between the ledger balances and the system generated detailed query reports.

Description	Interest Receivable Rs.	Interest in Suspense Rs.	Total Rs.
Loans			
Balance as per Ledger	2,990,097,087	5,471,763,145	8,461,860,232
Balance as per the query report	2,789,685,870	5,427,093,061	8,216,778,931
Difference	200,411,217	44,670,084	245,081,301
Over drafts			
Interest receivable as per Ledger	-	2,986,011,773	2,986,011,773
Interest receivable as per query report	-	2,897,296,204	2,897,296,204
Difference		88,715,569	88,715,569
Total Difference	200,411,217	133,385,653	333,796,870

- b) The following differences were observed between the related party transactions made with the Government shown in the financial statements and the related balances shown in the Reports of the Central Bank of Sri Lanka (CBSL).

Type of Transaction	Balance as per Financial Statements Rs.000	Balance as per CBSL Reporting Rs.000	Difference Rs.000
Loan and Advances	290,790,922	279,405,917	11,385,005
Deposits	113,565,125	112,665,130	899,995

- c) The Bank had made an impairment provision for the suspended interest income amounting to Rs. 12.4 billion identified based on the CBSL regulatory requirements. However, the Bank had identified the interest in suspense relating to loans, overdrafts and the relevant part of the Male Branch loans based on a query report amounting to Rs. 8.5 billion. The difference of Rs. 3.9 billion had not been identified in detail by the Bank.

- d) The Bank had instructed a Bank in Iran to transfer US \$ 800,000 and Euro 200,000 from the two accounts through Central Bank of Sri Lanka to Deutsche Bank, America and Bank of Ceylon London (Euro Account) respectively on 26 January 2012. According to Society for Worldwide Interbank Financial Telecommunication (SWIFT) statements sent by Iranian Bank in February 2012 had shown that the requested funds had been transferred. However, no funds had been received to Deutsche Bank account and BoC London account.

Therefore, the above two fund transfers were shown as reconciling items in the respective bank accounts since February 2012 and the total unreconciled balance was Rs.140, 866,880 as at 31 December 2013.

2.3.5 Suspense Accounts and Long Outstanding Balances

The following observations are made.

- a) Cash and Bank balance include a long outstanding cash balance remained in a Pakistan Bank account as at 31 December 2013 amounting to Rs. 36,495,549 and no any correspondents were available to substantiate the account balance.
- b) The fee income collected from the issuance of Import Bills, Letter of Credit, Shipping Guarantees and LC Shipping Guarantees should be accounted under Other Creditors and those balances should be recognized as revenue of the Bank within a maximum period of two weeks.

However, following balances in the account remained for more than one month and had not been transferred to the respective accounts. Therefore, revenue of the Bank had been understated by Rs. 493 million. The age analysis is as follows.

	Outstanding Less than 30 Days Rs	Outstanding between 31 to 90 Days Rs	Total Rs
Balance	400,748,505	38,301,379	439,049,884

2.3.6 Non – compliance with Laws, Rules and Regulations

The following Non compliances with Laws, Rules and Regulations were observed.

<u>Reference to Laws, Rules and Regulations</u>	<u>Non- compliance</u>
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etc.

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| a) Section 4(5) of the CBSL Direction No.03 of 2008 | Although the non-performing multiple credit facilities granted to a single borrowers should not be exceeded 30 per cent which had not been complied with this. |
| b) Office Circular No: 46/2010 dated 15 January 2010 (The 2nd addendum of Office Instruction) | Even though the “Ransurekum Naya Seva”, Maximum exposure limit of an individual customer and a customer engaged in gold and jewellery business should be Rs.5 million and Rs.10 million respectively, the Bank had granted pawning advances without considering the limits prescribed in the Circular. |

3. Financial Review

3.1 Financial Results

- a) According to the financial statements presented, the Bank, and its Subsidiaries and Associates (Group) had recorded a pre-tax profit of Rs. 16.1 billion as compared with Rs. 20.2 billion in 2012, thus showing a decrease of Rs.4.1 billion or 20 per cent as compared with the previous year, whereas the Bank had recorded a pre-tax profit of Rs. 15.7 billion as compared to Rs.19.8 billion in 2012, which is a decrease of 21 per cent as compared with the previous year.

The Bank experienced an excess liquidity position during the year due to low loan growth and as a result the excess funds have been invested in investment securities. However, interest income from the investment portfolio increased only from Rs. 23 billion to Rs. 27 billion due to the low interest regime remained during 2013.

Gross loans and advances remained at Rs. 755 billion with compared to Rs. 714 billion in 2012 which is a 6 per cent growth and lending to the Government and State Owned Enterprises had grown up to Rs. 290 billion compared to Rs. 274 billion in 2012.

- b) Non-Performing loan portfolio increased during 2013 mainly due to the increase of non performing pawning advances. A decline in gold prices since 2013 impacted pawning portfolios across the sector which necessitated the Bank to absorb a higher impairment charge of Rs. 2,033 million in 2013.

The Bank's operating expenses during year was Rs. 23 billion as compared with Rs. 20 billion in 2012 which had increased by 15 per cent and personnel expenses had increased by 14 per cent with compared to the preceding year.

The following table gives a summary of the financial results of the Bank and the Group at various stages for the year under review and the preceding year.

	Bank		Group	
	2013	2012	2013	2012
	Rs.million	Rs.million	Rs.million	Rs.million
Interest income	114,863	95,022	119,504	98,751
Interest expense	(77,720)	(59,701)	(80,162)	(61,489)
Net interest income	37,143	35,321	39,342	37,262
Net fee and commission income	5,737	6,666	5,935	6,770
Net gain/ (loss) from trading	3,233	3,773	3,268	3754
Net gain/ (loss) from financial investment	425	367	470	368
Other operating income	2,486	3,656	4,197	5,123
Total operating income	49,024	49,783	53,212	53,277
Impairment (charges)/reversal for loans and other losses	(6,923)	(5,904)	(7,339)	(6,006)
Net operating income	42,101	43,879	45,873	47,271
Total operating expenses	(23,681)	(20,870)	(27,241)	(23,789)
Operating profit before value added tax (VAT)	18,420	23,009	18,632	23,482

Value added tax (VAT) on financial services	(2,711)	(3,214)	(2,756)	(3,275)
Operating profit after value added tax (VAT)	15,709	19,795	15,876	20,208
Share of profit / (loss) of Associate companies before tax		-	228	39
Profit before income tax	15,709	19,795	16,104	20,246
Income tax expense	(3,622)	(5,378)	(3,956)	(5,638)
Profit for the year	12,087	14,417	12,148	14,608

3.2 Analytical Financial Review

Significant Ratios

Certain significant ratios for the year under review and preceding four years are given below.

	Actual					
	CBSL					
	Norms	2013	2012	2011	2010	2009
	%	%	%	%	%	%
(a) Capital Adequacy Ratio (Tier 1)	5.00	8.4	8.3	7.8	10.3	11.2
(b) Capital Adequacy Ratio (Tier 2)	10.00	12.1	11.5	10.9	13.7	14.2
(c) Income Growth	-	15.7	56.3	11.2	(0.2)	5.5
(d) Return on Average Assets	-	1.4	2.1	2.1	1.6	0.8
(e) Liquidity Ratio	20.00	27.7	21.8	23.4	28.7	21.1

The following observations are made in this regard.

- a) Income growth rate of the Bank had decreased from 56.3 per cent to 15.7 per cent during the year under review which was a considerable decrease as compared with the preceding year.

- b) Liquidity Ratio of the Bank had decreased to 21.8 per cent during the year 2012 as compared with that of 23.4 percent in 2011 and increased to 27.7 per cent in the year under review.

4. Operating Review

4.1 Loan Administration

- a) The audit test check revealed that certain loans and advances had been granted without proper evaluation of securities mortgaged and credit worthiness of the customers. Audited accounts of the customers and legal documents relating to establishment of the companies had not been obtained on a timely manner. Further, correspondence files for advances had not been updated with relevant documents and information. In certain instances the insurance policies against the mortgaged properties had not been obtained/ duly renewed. Regular inspections had not been carried out on mortgaged properties. In certain instances, letter of set off had not been taken from the borrowers concerned.

Ex: Rathmalana, Mirigama, Veyangoda, Negambo City, Yakkala, Biyagama and Hanwella Branches

The following observations are made in this regard.

- i) Non Performing Advances (NPA) of the following Branches had also reflected higher percentages for the year under review.

Branch Name	Total Advance Rs.	Total NPA Rs.	NPA as a percentage of Total Advance %
Second Corporate	2,474,771,941	2,340,238,141	94.56
Atchuvvely	1,250,535,407	555,454,759	44.41
Killinochchi	1,043,364,870	350,815,153	33.62
Panadura	2,165,529,408	491,733,335	22.70
Nugegoda	3,063,410,537	450,275,576	14.69
Metropolitan	7,670,314,822	817,350,823	10.65

- ii) Non-performing Advances of the major ten customers as at 31 December 2013 aggregating to Rs. 2,877,663,707.
- iii) Capital and interest relating to outstanding loan and advances amounting to Rs. 86,541,248 and Rs. 108,193,439 respectively had been written off during the year under review.
- iv) Loans granted to six State Owned Enterprises had remained in NPA Section for a long period. The total outstanding as at 31 December 2013 was Rs. 697.34 million. Details are as follows.

Company	Capital Outstanding Rs. Mn	Interest Due Rs. Mn	Total Outstanding Rs. Mn
Building Materials Corporation Ltd	32.30	72.22	104.52
Janatha Fertilizer Enterprises Ltd	51.72	234.92	286.64
British Ceylon Corporation Lanka Ltd.	101.34	189.24	290.58
Co-operative Wholesale Establishment	*1.00	-	1.00
Lanka Salusala Limited	**1.00	-	1.00
Sri Lanka State Plantations Corporation	8.73	6.87	15.60
Total	194.09	503.25	697.34

* Co-operative Wholesale Establishment – Written off amount was Rs. 100 million

** Lanka Salusala Limited – Written off amount was Rs. 35 million

b) Credit Cards

The following observations are made.

- i) The Card Centre had issued 66,496 credit cards as at 31 December 2013 and the total outstanding balances as at that date amounted to Rs. 2,448,982,476. Out of this, a sum of Rs. 178,984,306 or 7.3 per cent were categorized as Non-performing. The details of the total Non- Performing Advances were as follows.

Category	Amount Rs.
Overdue	10,801,643
Substandard	24,134,813
Doubtful	19,956,451
Loss	124,091,399
Total	178,984,306

- ii) The number of card holders who had not paid even a single installment since obtaining the cards up to 31 December 2013 stood at 95 and the total outstanding amount was Rs. 3,126,588.
- iii) Capital and interest written off during the year under review were Rs. 3,644,559 and Rs. 4,550,322 respectively.

c) Leasing

- a) The following branches had recorded the highest Non –Performing Advances relating to leasing business.

Branch Name	Total Outstanding Balance as at 31 December 2013 Rs	Total NPA Leasing as at 31 December 2013 Rs	NPA as a percentage of total outstanding %
Union Place Super Grade	439,821,377	295,491,729	67
Dehiwala Super Grade	116,447,301	70,307,397	60
Malabe	161,494,821	63,828,544	40

Bandaragama	66,967,685	22,464,915	34
Athurugiriya	78,459,871	20,413,774	26
Kaduwela	192,244,448	41,254,353	21
Panadura Super Grade	118,674,381	21,230,420	18
Mirigama	106,809,518	18,197,677	17
Kegalle Super Grade	154,277,997	17,598,033	11
Metropolitan	1,694,850,911	114,685,171	07

d) **Lending to Ceylon Petroleum Corporation**

The Bank had granted several import facilities to Ceylon Petroleum Corporation (CPC) and the total outstanding as at 31 December 2013 was Rs. 228.8 billion. It was observed that this represents 61 per cent of the total outstanding import facilities provided by the Bank as at 31 December 2013.

Credit exposure as at 31 December 2013 is as follows.

Type of Facility	CPC Outstanding Balance as at 31 December 2013 Rs.	Total Outstanding of the Bank as at 31 December 2013 Rs.	Percentage of Total Outstanding %
Letter of Credit	48,151,133,777	79,915,578,230	60
Acceptance	66,285,721,777	91,832,810,086	72
Foreign Currency Loan	114,348,135,600	205,600,247,169	56
Total	228,784,991,154	377,348,635,485	61

e) **Computing Impairment**

- i) In computing the loan loss provision of the following portfolios, the Bank had used the regulatory loan loss provision for the year ended 31 December 2013.

Loan category	Amortized Cost of the loans as at 31/12/2013
	Rs.
New Comprehensive Rural Credit Scheme (NCRCS)	541,658,863
Foreclosed Properties	839,056,170
Islamic Banking	124,228,306
Manual Loans	125,993,000

- ii) The regulatory loan loss provision had been considered as the impairment provision and had not applied a consistent impairment methodology of the following portfolios in financial reporting of 2013 by the Male Branch.

The respective portfolio balances as at 31 December 2013 were as follows.

Bills of Exchange	- Rs. 68,165,476
Trade Finance	- Rs. 793,437,202
Staff Loan	- Rs. 7,751,384

f) **Necessity of Validating Estimates and Assumptions Considered in the Impairment Assessment of Loss Making State Owned Enterprises**

Approximately 38 per cent of the total credit exposure of the Bank as at 31 December 2013 consists of lending to the Government of Sri Lanka and the State Owned Entities (SOEs). In the assessment of impairment, the Bank had considered certain significant SOEs for which impairment conditions exist, as non-impaired on the grounds that those were attached to the Government. However it was observed that these loans were substantially collateralized through Treasury Guarantees or any other securities.

g) **Necessity of Assessing Loss Rates –Trade Finance Loans**

Trade finance loans granted by the branches approximately amounting to Rs. 970 million had not been captured in the Integrated Comprehensive Banking System (ICBS) due to these loans were termed as “Manual Loans”. Therefore there was no age analysis available for these loans.

Apart from the above, the ‘Bank Trade System’ which maintained the trade finance portfolio had not facilitated to capture the age analysis of trade finance loans in order to compute the Net Flow Rates (NFR). As a result, the NFR of trade finance portfolio had been computed based on the average NFRs applicable to the Individual Significant Loans (ISL) non impaired customers maintained in the ICBS system.

4.2 Management Inefficiencies

The following observations are made.

a) **Inadequate Insurance Cover for the Central Cash Unit at Head Office Premises**

Insurance cover of the cash in hand at the Central Cash Unit was only Rs. 1 billion, whereas the actual cash in hand was Rs. 2.7 billion as at 31 December 2013. Hence, the insurance coverage for the cash in hand at the Central Cash Unit was inadequate.

b) **Necessity of Assessing the Impairment Losses of the Investment in BOC (UK) Limited**

Bank of Ceylon (UK) Limited is a fully owned subsidiary of the Bank. The carrying value of the investment was Rs. 2, 683,859,000 as at 31 December 2013 and the following impairment indicators, which may give rise to a lesser fair value than the cost of investment. It was also observed that the profitability of the company had continuously been deteriorated.

Period	Operating Income (GBP)	Net Profit/(Loss) After Tax (GBP)
8 months period ended 31.12.2010	1,813,000	14,000
Year ended 31.12.2011	1,443,000	(439,000)
Year ended 31.12.2012	1,672,000	(221,000)
Year ended 31.12.2013	1,528,000	(422,000)

Due to increasing of losses, the company was not in a position to pay dividends since its inception in 2010.

c) Dealing Room Voice Recording System

The Bank had installed the voice recording system to the front office dealer phones but it was listened only due to a complaint on an issue.

These recorded calls should be listened or monitored by a designated independent officer in the Middle office/ Risk management unit on a frequent basis, as required by the point No. 4.1 (xiv) CBSL direction No. 3 of 2009 on Risk Management relating to Foreign Exchange Business of Licensed Commercial Banks. However the Bank had not complied with this direction.

d) Non Availability of Lease Agreements for Leasehold Land

The Bank had not possessed legally binding lease hold agreements for 62 leasehold lands. In certain instances, official correspondents such as letters issued by respective authorities were available and in certain cases the Bank did not have any evidence to substantiate the rights to use such leasehold properties. And also the Bank had not possessed legally binding land deeds for 03 freehold land properties.

e) Delays in Claiming the Input Tax on Leasing Business

As per section 22 (6) of the Value Added Tax Act, input tax credit should be claimed on or before the expiry of twelve months from the date of such tax invoice. However, certain branches had delayed forwarding of the original tax invoices in respect of leasing business to the Head Office for claim. Therefore, the ledger balance included expired

input taxes amounted Rs.3,980,860 which could not be recovered from the Department of Inland Revenue.

4.3 Serious Frauds

The following observations were made.

a) Un authorized Fund Transfers

i) Metropolitan Branch

Bank had transferred a sum of Rs. 5.8 million on 23 October 2013 from the NRFC Account of deceased customer at the Metropolitan Branch to a Savings Account at Local Private Bank on a fraudulent request made by a fraudster.

As per the findings of the preliminary investigation, it was revealed that the Manager and Assistant Manager had discharged their duties in a grossly negligent manner while transferring funds as mentioned above despite the notation made in the request to read as “Signature Differs” and not referring to the Senior Manager of the Branch.

Further investigations were being processed and the matter had been reported to the Criminal Investigation Department (CID).

ii) Personal Branch

Bank had transferred funds of USD 86,384 equivalents to Rs. 11.1 million from the DFC Account of a customer at the Personal Branch to an Account in the Bank of Cyprus on a fraudulent request made by a fraudster on an unverified source. Investigations on this matter were being processed.

iii) Metropolitan Branch

Allegation made by a customer regarding unauthorized fund transfer amounting to USD 784,562 (with interest) effect by the Bank from his fixed deposit. Related requests and other correspondences were transmitted through emails. Representative Officer of the Bank at UAE and Bank Manager of Metropolitan branch were failed to re-confirm the customer over the phone.

However the Bank Manager had made the fund transfer without taking further instruction from the higher authority. Bank made the said transaction in a negligence manner without identifying the customer properly.

iv) Personal Branch

Bank had transferred funds of USD 70,000 and GBP 200,000 from the SFIDA (Special Foreign Investment Deposit Accounts) Savings Account of a customer at the Personal Branch to an Account in the Bank in China and UAE on a fraudulent request made by a customer using the different e-mails. Investigations on this matter were being processed.

b) Removal of Gold Articles Worth Rs. 8 million - Bogawanthalawa Branch

Fraudulently removing gold articles pawned by customers which were lodged in the vault, by an Officer who worked as the Manger of the Bogawanthalawa Branch. The total advances of the removed articles cost was approximately Rs. 8 million. The Manager had been retired from the Bank's service, but her pension benefits had been held by the Bank. The matter had been reported to the Criminal Investigation Department (CID) and investigations are being processed.

c) Fraudulently Creation of Pawning Advances - Bopitiya Branch

Fraudulently created Pawning Advances in the system and defrauded Rs. 18 million by junior executive officer of the Bank and when the fraud was discovered, the respective officer had left the county and the officer had been interdicted from the Bank's service. The Manager who discharged the duties in a grossly negligent manner was interdicted from the Bank's service pending finalization of the disciplinary proceedings. The matter had been reported to the Criminal Investigation Department (CID).

d) Changing of Gold Articles Worth Rs. 3 million - Makandura Extension Office

In this case an officer of the Bank who worked as the Manager in the Makandura Branch had fraudulently changed the Gold articles pledged in the Bank to fake articles. The gross value of the removed gold articles was approximately Rs. 3 million and the officer was interdicted from the Bank's service. Further investigations were being processed.

5. Systems and Control

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Bank by my detailed reports issued to the Chairman of the Bank. Special attention is needed in respect of the following areas of control.

- a) Loan Administration**
- b) Branch Activities**
- c) Inventories**
- d) Deposits**
- e) Taxation**
- f) Investments**
- g) Maintenance of Accounting Records**
- h) Temporary Overdrafts facilities**