

## **State Mortgage and Investment Bank Provident Fund – “A” -2013**

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The audit of Financial Statements of the State Mortgage and Investment Bank Provident Fund –“A” for the year ended 31 December 2013 comprising the balance sheet as at 31 December 2013 and the income and expenditure account for the year then ended, cash flow statement and the statement of changes in equity was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Paragraph 9 of Part I ; Section (1) General of the Extraordinary Gazette No. 38/19 of the Democratic Socialist Republic of Sri Lanka dated 01 June 1979.

### **1.2 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 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.

### **1.3 Auditor’s Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund’s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **1.4 Basis for Qualified Opinion**

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2 Financial Statements**

### **2.1 Qualified Opinion**

In my opinion, except for the effect of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the State Mortgage and Investment Bank Provident Fund-“A” as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **2.2 Comments on Financial Statements**

#### **2.2.1 Accounting Deficiency**

The following accounting deficiencies were observed in audit.

- (a) Fixed deposits amounting to Rs.30,034 had been understated due to non-capitalization at the maturity.
- (b) Interest on fixed deposit and interest receivable for the year under review had been overstated by Rs. 19,317 and Rs.54,837 respectively due to erroneous computation.
- (c) An abnormal debit balance amounting to Rs. 138,687 had been shown in the tax payable account as at the balance sheet date without being adjusted.
- (d) A difference of Rs.11,140,713 had been observed between the balances of the individual funds shown in the financial statements of Provident Fund “A” and “B” and the corresponding balances shown in the financial statements of the State Mortgage and Investment Bank.

#### **2.2.2 Accounts Receivable and Payable**

The following observations are made.

- (a) Accumulated annual Bank’s contribution to the Fund amounting to Rs. 33,544,679 as at the balance sheet date had been shown as receivable over number of years without being settled to the Fund.
- (b) A sum of Rs.18,268 had been shown in the Suspense account (Ex Members) since 2004 without being taken action to clear this balance.

### 3. Financial Review

#### 3.1 Financial Results

The following observations are made.

- (a) According to the financial statements presented, the operations of the Fund during the year under review had resulted in a surplus of Rs. 5,663,546 as compared with the corresponding surplus of Rs. 6,390,735 in the preceding year thus showing a decrease in financial result by Rs.727,189 or 11.37 per cent. The main reason for this negative trend was the decrease of supplementary contribution of the Bank for the year under review by Rs.842,105.

#### 3.2 Operating Review

##### 3.2.1 Financial Review

According to the information made available, the operation of the Fund for the last 04 years are summarized and shown below.

<b>Sources of Income</b>	<b><u>2013</u></b> <b>Rs.</b>	<b><u>2012</u></b> <b>Rs.</b>	<b><u>2011</u></b> <b>Rs.</b>	<b><u>2010</u></b> <b>Rs.</b>
Interest Income on Fixed Deposits , Loans to Members and Savings Accounts	1,013,264	844,336	1,250,822	2,103,734
Supplementary Contribution of the Bank	<u>5,222,951</u>	<u>6,065,056</u>	<u>5,271,604</u>	<u>5,514,266</u>
<b>Total Income</b>	6,236,215	6,909,392	6,522,426	7,618,000
Expenditure	(572,669)	(518,657)	(599,455)	(703,070)
<b>Surplus/(Deficit) for the year</b>	<b><u>5,663,546</u></b>	<b><u>6,390,735</u></b>	<b><u>5,922,971</u></b>	<b><u>6,914,930</u></b>

The following observations are made in this connection.

- (a) The interest income on fixed deposit had decreased from Rs.1,714,287 to Rs.381,171 during the period 2010 to 2012. However, this income had increased from Rs. 381,171 to Rs. 647,793 or 69.9 per cent during the year 2013 as compared with the previous year as a result of increase of investment on fixed deposits by Rs. 7,753,386 during the year under review.
- (b) The interest income on loan to members had increased from Rs. 389,447 to Rs. 444,107 or 14 per cent during the period 2010 to 2011. Nevertheless it had decreased from 444,107 to Rs.286,531 or 35 per cent during the period 2011 to 2013 as a result of settlement of loans by the members.

### 3.2.2 Contribution to the Fund

According to the information made available for audit, the contributions and interest received to the Fund for the year under review and the preceding year are summarized and given below.

	2013				2012			
	<u>Members' Contribution</u>	<u>Bank's Contribution</u>	<u>Interest Credited</u>	<u>Total</u>	<u>Members' Contribution</u>	<u>Bank's Contribution</u>	<u>Interest Credited</u>	<u>Total</u>
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Balance as at 01 January	6,608,425	9,909,385	33,583,116	50,100,926	7,764,015	11,641,635	41,943,498	61,349,149
<u>Add</u>								
Contribution received during the year	<u>740,960</u>	<u>1,111,441</u>	<u>5,663,546</u>	<u>7,515,947</u>	<u>901,866</u>	<u>1,352,803</u>	<u>6,390,735</u>	<u>8,645,404</u>
Total	7,349,385	11,020,826	39,246,662	57,616,873	8,665,881	12,994,438	48,334,233	69,994,553
<u>Less</u>								
Payment made during the year	<u>(1,558,360)</u>	<u>(2,336,868)</u>	<u>(9,574,521)</u>	<u>(13,469,749)</u>	<u>(2,057,456)</u>	<u>(3,085,053)</u>	<u>(14,751,117)</u>	<u>(19,893,626)</u>
Balance as at 31 December	<u>5,791,025</u>	<u>8,683,958</u>	<u>29,672,141</u>	<u>44,147,124</u>	<u>6,608,425</u>	<u>9,909,385</u>	<u>33,583,116</u>	<u>50,100,927</u>

The members' contribution to the Fund had decreased by Rs. 160,906 or 18 per cent in the year 2013 when compared with that of 2012 and the Bank contribution also had decreased by Rs.241,362 or 18 per cent in line with members contribution and total paid amount had decreased by Rs. 6,423,877 or 32.29 per cent in the year 2013 as compared with the year 2012.

### 3.2.3 Loans Granted to Members

(a) According to the information made available for audit, details of loans granted to members for the year under review and the preceding year is given below.

	<u>Year ended 31 December</u>	
	<u>2013</u>	<u>2012</u>
	Rs.	Rs.
Balance as at 01 January	4,895,657	7,858,104
<u>Add</u>		
Loans granted to members during the year	1,950,000	925,000
Settlement of over payment made by members	—	26,836
	6,845,657	8,809,940
<u>Less</u>		
Recoveries during the year	<u>(2,234,772)</u>	<u>(3,914,283)</u>
Balance as at 31 December	<u>4,610,885</u>	<u>4,895,657</u>

The loans granted to members had increased by Rs. 1,025,000 or 111 per cent in the year 2013 when compared with that of year 2012. But the recoveries had decreased by Rs. 1,679,511 or 43 per cent in the year 2013 as compared with the year 2012.

(b) The following loans amounting to Rs.1,950,000 had been granted to members without being considered their dates of retirement.

Employee Number	Date of Loan Granted	Amount of Loan Granted Rs.	Date of Retirement	Repayment Period
99	12.02.2013	1,600,000	28.12.2015	10 years
88	05.06.2013	200,000	10.03.2015	10 years
88	10.10.2013	100,000	10.03.2015	10 years
96	16.07.2013	<u>50,000</u>	06.04.2015	10 years
		<u>1,950,000</u>		

#### **4. Accountability and Good Governance**

##### **4.1 Delays in Presentation of Financial Statements**

According to the Paragraph 04.3 of the Public Finance Circular No.PF/423 of 22 December 2006, the financial statements of the Fund for the year under review should be submitted to the Auditor General within 02 months after the close of the financial year. However, the financial statements for the year under review had been submitted for audit only on 04 July 2014.

##### **4.2 Establishment, Authority and Management of the Fund**

The State Mortgage and Investment Bank Provident Fund –“A” had been established in terms of Section 85 (2) of the Ceylon State Mortgage and Investment Bank Law, No.13 of 1975. All monthly or daily paid employees of the Ceylon State Mortgage Bank who, under the provisions of Section 85(2) of the Ceylon State Mortgage and Investment Bank Law, No.13 of 1975, are deemed to be employees of the Bank and have accepted employment in the Ceylon State Mortgage and Investment Bank shall, as a condition of their employment by Bank, become members of the Provident Fund “A” and the Fund shall be controlled, managed and administered by a Committee of Management consisting of two directors to represent the employer, to be nominated by the Board of Directors of the Bank and two members of the Fund to represent the employees.

