

## **State Mortgage and Investment Bank Provident Fund – “B” - 2014.**

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The audit of financial statements of the State Mortgage and Investment Bank Provident Fund –“B” for the year ended 31 December 2014 comprising the balance sheet as at 31 December 2014 and the profit and loss account, statement of changes in equity and cash flow statement 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(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 dated 01 June 1979 of the Democratic Socialist Republic of Sri Lanka.

### **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 qualified 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 effects 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 –“B” as at 31 December 2014 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 Standards**

The Cash flow statement of the Fund had not been presented as prescribed format mention in the LKAS 07.

### **2.2.2 Accounting deficiencies**

The following accounting deficiencies were observed in the audit.

- (a) Interest on fixed deposit and interest receivables amounting to Rs.13,542 and 10,849 respectively had been overstated during the year under review due to computation errors.
- (b) A difference of Rs.1, 795,887 had been observed between the balances shown in the financial statements of the individual funds and the financial statements of the State Mortgage and Investment Bank.

### **2.2.3 Noncompliance with Laws, Rules, Regulations, and Management Decisions**

According to the Rule No. 04 of the Extraordinary Gazette, No.38/19 on 01 June 1979 of the Democratic Socialist Republic of Sri Lanka, all money standing in the Credit of members should be invested in debentures of any Government bank or Government securities. However, all these monies amounting to Rs.5,715,483 had been invested in the fixed deposits of the State Mortgage and Investment Bank contrary to the instructions.

## **3 Financial and Operating Review**

### **3.1 Financial Results**

According to the financial statements presented, the operations of the Fund during the year under review had resulted in an interest credited to members accounts amounting to Rs. 816,974 as compared with the corresponding interest credited to members accounts amounting to Rs. 840,061 for the preceding year thus showing a decrease in financial results by Rs.23,087 or 2.75 per cent. The main reason for this negative trend was the decrease the supplementary contribution due to retirement of existing members during the year under review.

### 3.2 Operating Review

#### 3.2.1 Analytical Financial Review

According to the information made available, a summary of the operating results of the Fund for the last 03 years and for the year under review are shown below.

	<u>2014</u> Rs.	<u>2013</u> Rs.	<u>2012</u> Rs.	<u>2011</u> Rs.
(i) Interest Income on Fixed Deposits and Savings Accounts	646,420	343,215	1,280,552	1,675,320
(ii) Interest Income on Loans to Members	-	-	<u>110,860</u>	<u>67,197</u>
(iii) Total Generated Interest Income	646,420	343,215	1,391,412	1,742,517
(iv) Bank charges	<u>(2,000)</u>	-	-	-
(v) Tax Expenses	<u>(81,697)</u>	<u>(84,006)</u>	<u>(187,232)</u>	<u>(181,306)</u>
(vi) Net Interest Income	562,723	259,209	1,204,180	1,561,211
(vii) Supplementary Contribution by State Mortgage and Investment Bank	<u>254,251</u>	<u>580,852</u>	<u>1,095,370</u>	<u>251,853</u>
Total interest credited to the Members	<u>816,974</u>	<u>840,061</u>	<u>2,299,550</u>	<u>1,813,064</u>

The following observations are made in this connection.

- a) The interest income on fixed deposits and savings accounts had decreased from Rs.1,675,320 to 343,215 or 79.5 per cent during the period of 2011-2013, in term interest income had increased to Rs.646,420 or 88.34 per cent during the year under review as compared with the previous year.
- b) The supplementary contribution had increased from Rs. 251,853 in 2011, to Rs. 1,095,370 in 2012, by 334.92 per cent while it had decreased significantly from Rs.580, 852 to Rs. 254,251 or 56.22 per cent during the period of 2013-2014.

### 3.2.2 Members Contribution

According to information made available to audit, a summary of members' contribution, Bank contribution and interest credited to members' accounts for the year under review and the preceding year are given below.

	2014				2013			
	Members Contribution	Bank Contribution	Interest Credited	Total	Members Contribution	Bank Contribution	Interest Credited	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance Brought Forward	1,089,893	1,634,664	5,034,137	7,758,694	996,709	1,494,889	4,224,720	6,716,318
<b><u>Add</u></b>								
Contribution during the year	95,385	143,078	816,975	1,055,438	93,184	139,776	840,061	1,073,021
<b>Total</b>	<b>1,185,278</b>	<b>1,777,742</b>	<b>5,851,112</b>	<b>8,814,132</b>	<b>1,089,893</b>	<b>1,634,665</b>	<b>5,064,781</b>	<b>7,789,339</b>
<b><u>Less</u></b>								
Excess credited interest								
Contribution 2012	-	-	-	-	-	-	(30,644)	(30,644)
<b>Balance carried forward</b>	<b>1,185,278</b>	<b>1,777,742</b>	<b>5,851,112</b>	<b>8,814,132</b>	<b>1,089,893</b>	<b>1,634,665</b>	<b>5,034,137</b>	<b>7,758,695</b>

Total contributions to the Fund had decreased by Rs. 17,583 or a 1.63 per cent in the year under review compared with the year 2013 and no payment had been made to the members due to no retirement of members during the year under review.

### **3.2.3 Loans Granted to Members**

According to the information made available to audit, any loans had not been granted to the members and recoveries had not been made from the members during the year under review. And amount of Rs.7,275 is remained without being made settlement from long period.

## **4 Accountability and Good Governance**

### **4.1 Delays in the presentation of financial statements**

According to the paragraph 4.3 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 2 months after the close of the financial year. However, the financial statements for the year under review had been submitted for audit only on 08 May 2015.

### **4.2 Establishment, Authorities and Purposes of the Fund**

The Fund had been established in terms of Section 85 (2) of the Ceylon State Mortgage and Investment Bank Law, No.13 of 1975. Accordingly, all monthly paid employees of the Agriculture and Industrial Credit Corporation of Ceylon, who are deemed to be employees of the Ceylon State Mortgage and Investment Bank and have accepted employment in the State Mortgage and Investment Bank shall, as a condition of their employment by Bank, become members of the Fund and the Fund shall be administered by a Board of Trustees consisting of one director who shall be appointed annually by the Board of Directors of the Bank, General Manager, or the person for the time being acting for him and a member who shall be elected annually by the members of the Fund.