

State Mortgage and Investment Bank- 2013

The audit of financial statements of the State Mortgage and Investment Bank for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income, 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(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. My comments and observations which I consider should be published with the Annual Report of the Bank in terms of Section 14 (2) (c) of the Finance Act, appear in this report.

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 Bank’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 Bank’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. Sub-sections (3) and (4) of the Section 13 of the Finance Act, No 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

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 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 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 Deficiencies

The following accounting deficiencies were observed.

- (a) Although the financial statements had been prepared in terms of Sri Lanka Accounting Standards (SLFRS and LKAS), general ledger accounts had not been updated accordingly to reflect the balances shown in the financial statements.
- (b) Even though the computerized Human Recourses and Payroll module had been installed and used from 2012, it has not been recognized as an asset and not been depreciated for last two years. As such the assets and depreciation had been understated by Rs. 1,368,736 and Rs. 324,184 respectively. Further an amount of Rs. 684,368 payable to the software developer had been omitted from the accounts.
- (c) Although a loan from Government amounting to Rs. 250,000,000 at a rate 9 per cent had been received in 2001, repayment of capital or interest had not been made to Treasury up to 31 December 2013. Even though interest aggregating Rs. 134,321,918 had been provided up to 2006, no provision had been made in the accounts for the period from 2006 to 2013 aggregating Rs. 157,500,000.

2.2.2 Un-reconciled Control Accounts

The following unreconciled balances were observed,

- (a) Unreconciled balances amounting Rs. 8,561,853 and Rs. 2,286,234 shown under the current assets and current liabilities respectively remained without being reconciled since 2004.

- (b) Unreconciled balances amounting to Rs. 1,122,255 had remained in the cheque on realization account- 004/1/09/1607 of Gampaha branch as at 31 December 2013.

2.2.3 Unexplained Differences

The following differences were observed.

- (a) Differences of Rs. 31,217,166 had been observed between amount shown in the financial statement and the balances generated by the computerized system in respect of 11 branches with regard to the fixed deposits and savings accounts as at 31 December 2013.
- (b) Differences of Rs. 10,212,121 had been observed between balances shown in the financial statements totaled Rs.150,378,908 and the balances generated by the computerized system totaled Rs.160,602,177 with regard to the unappropriated accounts as at 31 December 2013.
- (c) Differences of Rs. 6,369,435 and Rs. 7,384,579 had been observed between the ledger balances and the balances in the fixed assets register relating to the cost of assets and accumulated depreciation respectively.

2.2.4 Unidentified Transactions

The following observations are made.

- (a) Deposits aggregating to Rs. 1,661,384 as at the end of the year under review had been remained as unidentified deposits.
- (b) Out of the total balance of Rs. 7,885,230 shown in the advance account, a sum of Rs.5,394,098 or 68 per cent had not been identified and adjusted in the accounts.

2.2.5 Accounts Receivable and Payable

The following observations are made.

- (a) Confirmations of assets and liabilities by third parties were at very weak level. Details are given below.

Description	As per accounts		Confirmed		Percentage %
	Number of accounts	Amount Rs.	Number of accounts	Amount Rs.	
Bank accounts	29	86,819,683	05	10,218,367	11.76
Borrowing	04	570,971,037	03	320,136,246	56.06
Institutional	15	4,721,679,168	06	2,774,052,405	58.75
(b) Fixed Deposits	The following differences were observed between the balances shown in financial statements				
Special loan schemes Deposits	26	908,343,043	01	226,296,552	24.91
Description	As per the Accounts Rs.	As per the Confirmation Rs.	Differences Rs.		
USAID Loan	868,344	33,553	834,791		
Sri Lanka Ports Authority	230,431,525	226,296,552	4,134,972		

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Bank during the year under review had resulted in a pre-tax net profit of Rs.342.7 million as compared with the corresponding pre-tax net profit of Rs.430.26 million in the preceding year thus showing a decrease of Rs 87.56 million in the financial results.

Further the total comprehensive income for the year under review was Rs.234.04 million as compared with the corresponding total comprehensive income of Rs.270.78 million in the preceding year thus showing a decrease of Rs. 36.74 million.

The reasons attributed for these decreases are summarized below.

Item	Current Year	Previous Year	Percentage of Change over previous year
	2013 Rs.	2012 Rs.	
Interest Income	3,635,238,691	2,879,160,502	26
Interest Expenditure	<u>2,459,200,065</u>	<u>1,725,196,745</u>	43
Net Interest Income	1,176,038,626	1,153,963,757	2
Fee and Commission Income	97,250,758	72,580,010	34
Other Operating Income	<u>4,918,546</u>	<u>6,615,513</u>	(26)
Total Operating Profit	1,278,207,930	1,233,159,280	4
Impairment and Losses	<u>(53,338,578)</u>	<u>116,716</u>	(45799)
Net operating Income	1,224,869,352	1,233,275,997	(1)
Personal Expenses	(468,873,067)	(463,579,654)	1
Other Expenses	<u>(312,444,366)</u>	<u>(247,257,319)</u>	26
Operating Profit Before VAT	443,551,919	522,439,024	(15)
Value Added Tax(VAT)	<u>(100,810,623)</u>	<u>(92,174,295)</u>	9
Profit Before Tax	342,741,296	430,264,729	(20)
Taxation	<u>(110,479,788)</u>	<u>(157,802,290)</u>	(30)
Profit for the year	232,261,508	272,462,439	(15)
Losses on Re-measuring the available for sale financial assets	<u>1,780,000</u>	<u>(1,680,000)</u>	(206)
Total Comprehensive Income for the year	<u>234,041,508</u>	<u>270,782,439</u>	(15)

The following observations are also made in this regard.

- (a) Interest expenditure had increased by 43 per cent as against the 26 per cent increase of interest income for the year under review as compared with corresponding figures of the preceding year.
- (b) Other income had decreased by Rs.1.697 million or 26 per cent as compared with the preceding year.

- (c) Losses on re-measuring the financial assets available for sale had increased by Rs. 3,460 million or 206 per cent as compared with the preceding year.
- (d) Impairment losses had been increased by Rs. 53 million as compared with the preceding year.

3.2 Analytical Financial Review

The following observations are made,

- (a) According to the information made available, the operating results of the Bank for the year under review and for the previous 05 years period are given below.

	2013 Rs.(Mn)	2012 Rs.(Mn)	2011 Rs.(Mn)	2010 Rs.(Mn)	2009 Rs.(Mn)	2008 Rs.(Mn)
(i) Interest Income	3,635	2,879	2,611	2,362	2,165	1,956
(ii) Interest Expenses	2,459	1,725	1,214	1,368	1,939	1,636
(iii) Net Interest Income	1,176	1,153	1,397	994	226	320
(iv) Other Operating Income	97	73	76	387	505	261
(v) Other Income	48	7	-	1	2	5
(vi) Total Income	1,225	1,233	1,473	1,382	733	586
(vii) Total Recurrent Expenses	882	803	785	743	613	535
(viii) Tax Net Profit Before Tax	343	430	688	639	120	51
(ix) Taxation	110	158	178	179	46	30
(x) Net Profit After Tax	232	272	510	460	74	21
(xi) Loss on Financial Assets Available for Sale	2	2	3	-	-	-
Total Comprehensive Income	234	270	507	-	-	-

The following observations are made in this connection.

- ❖ The interest income had increased from Rs. 1,956 million to Rs. 3,635 million or 86 per cent during the period of 2008- 2013 and interest expenses had increased from Rs. 1,636 million to Rs. 1,939 million from 2008 to 2009 and decreased to Rs. 1,214 million in 2011. Further interest expense had been increased from Rs. 1,214 million to Rs. 2,459 million or 103 per cent during the period 2011 - 2013.

- ❖ The pre-tax net profit had increased from Rs.51 million to Rs.688 million or 1249 per cent during the period of 2008- 2011 after that it had decreased from Rs.430 million to Rs 343 million or 20 per cent during the year under review as compared with the year 2012.
- ❖ The net profit after tax had increased from Rs.21 million to Rs.510 million or 2328 per cent during the period of 2008 - 2011 and thereafter it had decreased from Rs.272 million to Rs.232 million or 15 per cent as compared with the previous year.

(b) Ratios and Percentages

According to the information made available, some of the important ratios of the Bank for the year under review and for the preceding 06 years are given below.

	2013	2012	2011	2010	2009	2008	2007
	%	%	%	%	%	%	%
<u>Profitability Ratios</u>							
i. Net Interest Margin	4.76	5.63	7.5	7.58	4.41	4.16	4.85
ii. Return on Equity	5.95	7.43	18.15	17	3.48	1.76	3.3
iii. Return on Average Assets	0.95	2.04	3.76	3.46	0.8	0.38	1.1
<u>Capital Adequacy Ratios</u>							
i. Equity / Total Assets	14.65	17.06	14.6	14.6	13.41	16.01	19.9
ii. Equity / Loans	17.74	20.66	19.46	19	18	19	23
iii. Tier I	22.49	26.68	29.59	26.2	25.29	27.81	56.95
iv. Tier II	22.85	26.99	29.92	26.9	25.29	28.47	57.98
<u>Liquidity Ratios</u>							
i. Liquid Assets/ Deposits (Liabilities)	24.38	21.98	20.04	21	26	12	10
ii. Deposits / Loans and Advances	100.07	93.22	87.48	85	85	71	61
iii. Borrowings/Loans and Advances	4.48	3.98	3.44	4	5	5	10

Even though the Bank is well ahead of the maintaining the minimum limit of the capital adequacy ratio in Tier 1 and Tier II of 5 per cent and 10 per cent as prescribed by the Central Bank, both ratios had been decreased as at the end of the year under review as compared with the preceding year and recorded the lowest ratio for the last six years.

4. Operating Review

4.1 Loan Administration

4.1.1 Non- Performing Loans

The following observations are made.

According to the information furnished, the following statement shows the position of the total outstanding loan and the non-performing loans thereon as at 31 December 2013.

Types of Loan	Outstanding Loan Balance as at 31 December 2013 Rs. millions	Non-Performing Loan Balance Rs. millions	Percentage of Non- performing Loans %
Mortgage Loans	7,863	998	12.69
EPF Loans	8,592	4,945	57.4
Estate Sector EPF Loans	1,165	862	73.9
Personal Loans	1,227	231	18.83
Motor Vehicle Loans	65.4	2.8	4.28
Total	18,912	7,038.80	37.22

The following observations are made in this connection:

- (a) Non – performing loans (NPL) ratio in respect of mortgage loans, EPF loans, estate sector EPF loans, personal and motor vehicle loans were 12.69, 57.4, 73.9, 18.83 and 4.27 per cents respectively. The percentages of NPL mortgage loans, EPF loans, estate sector EPF loans, motor vehicle loans for the previous year were 9.11, 62.32, 71.37 and 10.4 per cent respectively. Thus indicating an increasing trend except in EPF loans.
- (b) According to the above data the recovery position was unsatisfactory in respect of Mortgage and Estate Sector EPF loans.

4.1.2 Age Analysis of Loans

According to the information furnished, the following statement shows the age analysis of mortgage, EPF, estate sector EPF, personal and motor vehicle loans as at 31 December 2013.

Outstanding Balance as at 31December 2013						
Period of Arrears	Mortgage Loans	EPF Loans	Estate Sector	Personal loans	Vehicle loans	Total
Months	Rs. millions	Rs. millions	Rs. millions	Rs. millions	Rs. millions	Rs. millions
0	4,656	2,545	303	649	42	8,195
1-2	2,582	1,236	46	410	21	4,295
3-5	358	528	252	129	-	1,267
6-11	144	637	249	37	1	1,068
12 – 17	42	3,586	312	2	1	3,943
18 and Over	81	60	3			144
Total	7,863	8,592	1,165	1,227	65	18,912

The following observations are made in this connection.

- (a) Out of the total outstanding balances of Rs. 8,592 million in respect of EPF loans, a sum of Rs.3,646 million or 42 per cent was in arrears for over one year.
- (b) Out of the total outstanding balances of Rs. 1,165 million in respect of Estate Sector EPF Loans, a sum of Rs.315 million or 27 per cent was in arrears for over one year.
- (c) There were no evidence to prove whether the meaningful action had been taken to recover long outstanding balance in respect of EPF loans and Estate Sector EPF loans from the Central Bank of Sri Lanka.

4.1.3 Position of Loan Disbursement in respect of Mortgage, EPF and Estate Sector EPF Loans

According to the information made available the position of Mortgage, EPF and Estate Sector EPF loans granted during the year 2013 as compared with the preceding year are given below.

Types of Loans	2013		2012		Variance	
	Number of Loans	Value	Number of Loans	Value	Value	Percentage
		Rs. Millions		Rs. Millions	Rs. Millions	%
Mortgage Loans						
EPF Loans	6,011	2,140	4,276	1,478	662	44.79
Estate Sector EPF Loans	1,537	157	1,236	165	(8)	(4.85)
Personnel Loans	1,599	747	1,036	642	105	16.36
Motor Vehicle loans	9	27	25	53	(26)	(49.06)
Total	10,486	4,289	8,986	4,147	142	3.42

The EPF loans granted in the year under review amounted to Rs. 2,140 million as compared with the loans amounting to Rs. 1,478 million granted in the preceding year, thus indicating an increase of Rs. 662 million or 44 per cent. The mortgage loans granted in the year under review amounted to Rs. 1,218 million thus indicating a decrease of Rs. 591 million or 32 per cent. The motor vehicle loans granted in the year under review amounted to Rs. 27 million thus indicating a decrease of Rs. 26 million or 49 per cent. Even though, number of loans granted is increased by 17 per cent, the total value of the loans granted during the year under review is increased only by 3 per cent as compared with the previous year.

4.2 Operating Inefficiencies

4.2.1 Mortgage Loans

According to the audit test check carried out regarding mortgage loans, the following major weaknesses were observed.

- (a) Market value of certain mortgaged properties was less than the amount outstanding. The following can be cited as example:

Loan Number	Date	Loan Amount Rs.	Balance Principle Outstanding Rs.	Total Outstanding Rs.	Market Value of the Security Rs.
01/503/1/634, 1/500/1/1259, 1/501/1/1327	25.04.2011	5,200,000	5,108,693	8,510,165	7,000,000

- (b) Loans had been given to the customers without confirming the repayment capabilities of such customers. Few such instances are given below.

Loan Numbers	Date	Loan Amount Rs.	Balance Principle Outstanding Rs.	Total Outstanding Rs.
01/503/01/231/PO1/070- 2013	19.09.2007	900,000	705,586	1,498,898

- (c) Instances of loans granted without considering the history of arrears positions of the previous loans were observed. The following can be cited as examples.

Loan Number	Date	Loan Amount Rs.	Balance Principle Outstanding Rs.	Total Outstanding Rs.
1/500/1/1327	12/07/2010	700,000	690,916	1,075,238
1/500/1/1259	08/02/2010	3,000,000	2,974,711	5,082,641
18/1613	24/04/2008	750,000	27,840	170,233

- (d) In certain instances, loans exceeding 65 per cent of value of security pledged had been granted. Few examples are shown below.

Loan Number	Date	Loan Amount Rs.	Value of the Security Rs.	Loans as a percentage of the Security pledged %
1/500/1/1327	12/07/2010	5,157,854	7,000,000	73.68
1/500/1/1259	08/02/2010	4,465,779	6,600,000	67.66

- (e) The following instance of loan granted by considering future intended income had been observed.

Loan Number	Date	Loan Amount	Balance Principle Outstanding	Total Outstanding
		Rs.	Rs.	Rs.
09/646/09/0017	25.05.2013	1,500,000	1,194,204	1,360,436

- (f) Instances where the loans had been given without collecting proper documentary evidence as per the credit manual are given below.

Loan Number	Date	Loan Amount	Balance Principle Outstanding	Total Outstanding
		Rs.	Rs.	Rs.
09/646/09/0017	25.05.2013	1,500,000	1,194,204	1,360,436
01/503/01/;231/POL/070-2013	19.09.2007	900,000	705,586	1,498,898
01/646/01/00012	25.08.2012	1,700,000	1,593,748	2,119,894

- (g) Instances of not taken follow-up action to collect the loan installments from the salaries through a standing order in accordance with Paragraph 26.2 of the Credit Manual had been observed.

Loan Number	Date	Loan Amount	Balance Principle Outstanding	Total Outstanding
		Rs.	Rs.	Rs.
GP/02/04163	25.01.2011	468,000	454,470	783,573
GP/02/3834/X2/479	22.02.2007	450,000	436,936	632,746
GP/02/04123	01.04.2008	410,000	292,873	394,592
1/503/1/634,1/500/1/1259, 1/501/1/327	08.01.2008	5,200,000	5,108,693	8,510,165

- (h) The value of most of the properties vested for mortgage loans were not adequate to cover the outstanding balances of the respective loans. Details are given below.

Loan No	Balance Principle Outstanding	Estimated Value of the Property	Suspense Amount/Sav ings Balance Available	Total Amount due	Established Loss
	Rs.	Rs.	Rs.	Rs.	Rs.
K/16/0681/KY1/559	60,000	150,000	25,401	345,485	170,084
7/62516/D7/435	150,000	350,000		555,862	205,862
10/54419/D10/213	99,455	375,000		547,799	172,799
12/63400/D12/253	42,914	75,000		191,047	116,047
6/31940/T6/869	262,500	850,000		1,098,018	248,018
K/4/3186/KY3/289	138,409	290,000		415,325	125,325
GP/2/1758/K2/427	252,659	600,000		675,433	75,433
18/58484/Y18/129	123,745	500,000		568,633	68,633
KI/001/02/0061/KIA/26	8,919,111	13,000,000		19,677,458	6,677,458
18/72939/Y18/923- 18/62822-18/66598	50,834	200,000		226,985	26,985
18/62583/Y18/383	176,248	390,000		710,640	320,640
12/61050/D12/210	132,841	275,000		500,879	225,879
K/4/2929/KY2/813	175,000	275,000		598,404	323,404
1/32533/CD2/358	79,999	260,000		306,489	46,489
K/16/1144/KY2/529	47,272	80,000	43,000	162,742	39,742
6/45094/F6/137	299,997	225,000		719,201	494,201
6/43545/H6/524	255,030	450,000		551,886	101,886
10/53468/D10/191	118,275	550,000		575,640	25,640
2/463/PO1/147	1,802,789	2,500,000		3,125,622	625,622
Total	13,187,078	21,395,000	68,401	31,553,548	10,090,147

4.3 Uneconomic Transactions

The following observation is made.

Contrary to the provisions in the Clause (5) (ii) of the lease agreement entered for office rent of Gampaha branch, The bank had paid an amount of Rs. 44,444 as assessment rates and taxes to the Urban Council.

4.4 Transactions of Contentious Nature

Following observations are made.

- (a) Approval had been granted by the Board of Directors to reimburse entertainment expenses made out by the Credit Card provided to Chairman. Accordingly it was observed that bills aggregating Rs.423,235 had been reimbursed by the Bank during the year under review. It was further

observed that vouchers were not supported by bills or invoices. Hence this expense could not be satisfactory vouched in audit.

- (b) Contrary to the provisions in Public Enterprises Circular No.22/99 of 08 October 1999, two official vehicles had been allocated to one officer.
- (c) Pay As You Earn (PAYE) tax on salaries of employees amounting to Rs. 10,274,113 had been paid by the Bank on behalf of its employees without obtaining proper approval from the General Treasury.

4.5 Identified Losses

The following identified losses were observed in audit.

- (a) According to the information furnished, the following losses had been incurred on disposal of vested properties.

File Name	Loan Amount Rs.	Total Outstanding Rs.	Settled Amount Rs.	Loss Rs.
6/35405/P6/269	250,000	689,167	530,000	159,167
GL/9/226/GA1/162	175,000	486,481	300,000	186,481
2/65084/E2/208	250,000	776,191	691,279	84,912
18/73127/Y18/972	150,000	479,341	325,000	154,341
19/73724/Y19/045	780,000	2,329,302	2,327,857	1,445
10/58681/D10/277	300,000	1,428,776	750,000	678,776
18/71974/Y18/929	190,000	640,099	530,000	110,099
16/2810/KY2/754	175,000	389,117	250,000	139,117
Total	2,270,000	7,218,474	5,704,136	1,514,338

- (b) According to the information made available, the loan interest amounting to Rs.401,053 and other charges amounting to Rs.1,685,144 had been written off during the year under review.

4.6 Human Resources Management

According to the information made available, the approved and the actual cadre and the vacancies existed as at 31 December 2013 is given below.

Category of Staff	Approved Cadre	Actual Cadre	Number of Vacancies
Executives	170	173	(3) Excess
Non executives	233	98	135
Management trainees	15	-	15
Minor employees	66	62	4
Casuals	-	-	-
Total	484	333	151

It was observed that 58 per cent of the approved carder of Non-executives had been vacant by the end of the year under review which adversely effected to the smooth operation of the Bank.

5. Accountability and Good Governance

5.1 Action Plan

The following targets set out in the Action Plan for the year 2013 had not been achieved.

Action Code	Target	Position of Achievement
Goal 1	Increase loan portfolio to Rs.25 billion in 2013.	Loan portfolio as at 31 December 2013 was only Rs. 21.37 billion.
	Achieve at least net increase of Rs.850 million of deposits per month.	Net increase of deposit per month was only Rs.330 million or 39 per cent.
Goal 2	Establishing State Mortgage and Investment Bank service centers.	No any service centers had been established during the year 2013.
	Converting all existing extension offices towards fully fledged branches by end of 2013.	No any office was converted in to such a branch in 2013.
	Open/Upgrade existing branches to model branches	No any branch was upgrade or opened.
	Upgrading 4 existing branches as super grade branches	No any branch was upgraded as super grade branch.

	Investment in research and development	No investment was made on research and development.
Goal 4	Improving cost to income ratio from 25 per cent to 20 per cent by 2013.	Ratio had been decreased to 24.97 per cent.
Goal 5	Reducing exposure of mortgage loan with 1-2 months arrears from 28 per cent to 15 per cent by 2013.	Exposure had been increased to 32.84 per cent
	Maintaining Zero NPL ratio and no arrears position in personal and vehicle loans.	NPL ratios of personal and Vehicle loans were 18.62 per cent and 4.26 per cent respectively.
	Reducing exposure of mortgage loan with more than three installments arrears from 6 per cent to 3 per cent by 2013.	Exposure had been increased to 7.95 per cent.
Goal 6	Reducing present exposure of housing loans to 85 per cent from 90 per cent.	Exposure of housing loans was 90 per cent.
	Increasing housing loans (Mortgage and EPF) by Rs.5.5 billion.	Housing loans had been increased by only Rs. 2 billion.
	Increasing personal loans by Rs.1 billion.	Personal loans had been increased by only Rs.617 million.
	Increasing Vehicle loans by Rs.500 million.	Vehicle loans had been increased by only Rs. 18 million.
Goal 7	Integrating entire branch network with a new core banking solutions.	No core banking solution was introduced in 2013.
	Implementing ATM network for all the branches.	ATM units were not newly introduced during the year 2013.
	Implementing IT system required for risk management and compliance.	No system was introduced for risk management and compliance.
Goal 8	Improve and update the web based knowledge sharing system.	No system was introduced.

Goal 10	Organize national workshop on customer feedback survey findings.	No such workshop was conducted.
Goal 11	Undertaking projects to construct agreed number of houses for the deserved families.	No project proposal was finalized.

5.2 **Procurement Plan**

A Procurement Plan had not been prepared for the year 2013, the value of procurements made during the year 2013 was Rs.54, 823,686.

5.3 **Budgetary Control**

The Comprehensive Budget for the year under review had not been prepared, instead only a summarized profit and loss account had been prepared without considering detailed categories of income and expenses. According to the incomplete budget, significant variations were observed, hence; it was observed that the budget had not been used as an effective instrument of internal control.

6. **Systems and Controls**

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Bank by my detailed report issued in terms of section 13 (7) (a) of the Finance Act. Special attention is needed in respect of the following areas of control.

- (a) Vested Properties
- (b) Arrears of Loan Balances
- (c) Accounting of Interest Income and Tax Liabilities
- (d) Reconciliation of Control Accounts
- (e) Settlement of Advances
- (f) Confirmations of Accounts Receivable and Payable
- (h) Computerized Information System
- (i) Compliance with Laws, Rules and Regulations
- (g) Budgetary Control

