

## **Loan Board - 2013**

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The audit of financial statements of the Loan Board for the year ended 31 December 2013 comprising the balance sheet as at 31 December 2013 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 15 of the Loan Board Ordinance (Cap.311) as amended by the Loan Board (Amendment) Act, No. 33 of 1973. My comments and observations which I consider should be published with the Annual Report of the Board appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Generally Accepted Accounting Principles 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**

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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 Board'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 Board'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 financial statements.

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

## **2. Financial Statements**

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### **2.1 Opinion**

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In my opinion, the financial statements give a true and fair view of the financial position of the Loan Board as at 31 December 2013 and its financial performance for the year then ended in accordance with the Generally Accepted Accounting Principles.

## **2.2 Accounts Receivable and Payable**

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The following matters were observed.

- (a) The borrowers of 03 house and property loans amounting to Rs.195,000 disclosed under the investments in the financial statements had defaulted the payments. Even though cases had been filed in the years 1980 and 1983 for the recovery of the money, the cases had not been finalized even up to the year 2013. The title deeds, security guarantees and plans of the lands mortgaged for the loans and the Loan Registers and confirmation of balances had not been furnished to audit.
- (b) The interest amounting to Rs.609,402 receivable on the house and property loans accumulated without being recovered over a period exceeding 30 years had not been recovered even as at the end of the year under review. The Board had not taken any action whatsoever in this connection and the loan agreements, ledger, detailed schedules and the confirmation of balances had not been furnished to audit.

## **3. Financial Review**

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### **3.1 Financial Result**

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According to the financial statements presented, the financial results of the Board for the year under review amounted to a surplus of Rs.18,650 as compared with the corresponding surplus of Rs.18,650 for the preceding year. It was revealed that this represented the accrued interest income for the year under review on the house and property loan balance of Rs.195,000 brought forward from the years 1980 and 1983 and receivable by the Board.

## **4. Operating Review**

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### **4.1 Management Inefficiencies**

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The following matters were observed.

- (a) The liquidation of the Loan Board had been commenced in the year 1976 and its supervision had been entrusted to the Department of State Accounts up to 01 August 2001. Subsequently, the liquidation had been entrusted to the Department of Public Finance with effect from 02 August 2001. Even though a period of 37 years had elapsed from the decision taken for liquidation in the year 1976 up to the end of the year under review, that work had not been completed. In response to an enquiry made in this connection, the Director General of Public Finance informed that all the assets of the Loan Board are limited to the three cases referred to in paragraph 2.2 (a) and that action will be taken to close down the institution immediately on the receipts of the decisions relating thereto.
- (b) Dividends or interest had not been declared in connection with the case deposits remaining with the Divisional Secretariat, Colombo and the District Secretariat, Jaffna.

**5. Accountability and Good Governance**

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**5.1 Presentation of Financial Statements**

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According to Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements for the year 2013 should be presented for audit on or before 28 February 2014. Nevertheless those financial statements were presented for audit only on 17 June 2014.

**6. Systems and Control**

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Special attention is needed in respect of the following areas of controls.

- (a) Declaration of Fair Dividends or Interest on the active Case Deposits as applicable.
- (b) Recovery of Property Loan Balances and Interest
- (c) Liquidation Activities