

## **Loan Board - 2014**

---

The audit of financial statements of the Loan Board for the year ended 31 December 2014 comprising the balance sheet as at 31 December 2014 and the statement of income 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 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**

---

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**

---

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 Auditing 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 judgement, 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**  
-----

**2.1 Opinion**  
-----

In my opinion, the financial statements give a true and fair view of the financial position of the Loan Board as at 31 December 2014 and its financial performance for the year then ended in accordance with the Generally Accepted Accounting Principles.

**2.2 Comments on Financial Statements**  
-----

**2.2.1 Sri Lanka Public Sector Accounting Standards**  
-----

In terms of Section 3 of the Public Enterprises Circular No.3/2013 of 02 October 2013, the financial statements should be prepared by the Board in accordance with the Sri Lanka Public Sector Accounting Standards. In contrary, the financial statements had been prepared in accordance with the Generally Accepted Accounting Principles.

**2.3 Accounts Receivable and Payable**  
-----

The following observations are made.

- (a) The borrowers of three 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, those cases had not been finalized even up to the year 2014. Further, the title deeds, plans and security guarantees of the properties mortgaged for the loans and the Loan Registers and confirmation of balances had not been made available to audit.
- (b) The interest amounting to Rs.628,052 receivable on the house and property loans accumulated without being recovered over a period exceeding 31 years had not been recovered even as at 31 December of the year 2014. The Board had not taken any action whatsoever in this connection and the loan agreements, ledgers, detailed schedules and the confirmation of balances had not been made available to audit.

**3. Financial Review**  
-----

**3.1 Financial Result**  
-----

According to the financial statements presented, the financial results of the Board for the year under review had been a surplus of Rs.18,650 as compared with the corresponding surplus of Rs.18,650 for the preceding year as well. It was revealed that this is an interest income adjusted annually to 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**

**4.1 Management Inefficiencies**

The following observations are made.

- (a) A decision had been taken to abolish the Loan Board 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. Nevertheless, winding up activities had not been commenced and carried out up to the end of the year under review despite an elapse of a period exceeding 13 years.
- (b) Dividends or interest had not been determined in connection with the case deposits of litigants at District Courts remaining with the Divisional Secretariat, Colombo.

**5. Accountability and Good Governance**

**5.1 Presentation of Financial Statements**

According to Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements for the year 2014 should be presented for audit on or before 28 February 2015. Nevertheless, those financial statements had been presented for audit only on 08 September 2015.

**6. Systems and Controls**

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director General of the Department of Public Finance from time to time. Special attention is needed in respect of the following areas of control.

- (a) Financial Control
- (b) Accounting
- (c) Liquidation Activities