

## **National Savings Bank – 2014**

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The audit of financial statements of the National Savings Bank (“Bank”), and the consolidated financial statements of the Bank, and its Subsidiary for the year ended 31 December 2014, comprising the Statements of Financial Position as at 31 December 2014 and the Statements of Comprehensive Income, Statements of Changes in Equity and Cash Flow Statements 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 and Section 37 of the National Savings Bank Act No. 30 of 1971. I was assisted by 15 firms of Chartered Accountants in public practice to audit of 15 Branches of the Bank. The financial statements of the Subsidiary were audited by a firm of Chartered Accountants in public practice appointed by the Board of Directors of such Subsidiary.

### **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 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**

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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 risk 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 audit opinion.

## **2. Financial Statements**

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### **2.1 Opinion - Bank**

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In my opinion, the financial statements give a true and fair view of the financial position of the National Savings Bank as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **Opinion - Group**

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In my opinion, the consolidated financial statements give a true and fair view of the financial position of the National Savings Bank and its Subsidiary as at 31 December 2014 and their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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

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### **2.2.1 Accounting Deficiencies**

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- (a). The Bank had paid an amount of Rs. 4,000 million to the Treasury as dividend for the year under review. According to the letter No. MOF/FMAU/levy/dividend dated on 29 April 2010 issued by the Secretary to the Treasury, the payment of dividend should be at least 30 per cent of after tax profits or 15 per cent of equity whichever is higher. As such the Bank had made an overpayment of Rs. 510.96 million in contrary to the instructions given by the above letter. As a result, equity and assets of the Bank had been understated by Rs.510.96 million as at 31 December 2014.
- (b). The physically available fixed assets valued at Rs. 4,131,738 had not been reflected in the physical verification sheet while the fixed assets amounting to Rs. 14,290,872 shown in the fixed assets register had not been physically available in the Branches. Hence the accuracy of the fixed assets shown in the financial statements could not be ensured in audit.

### **2.2.2 Unexplained Differences**

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The following unexplained differences were observed between the amounts shown in the general ledger and the corresponding balances shown in the schedules/systems/confirmations obtained from the relevant parties.

| <b>Item</b>                                | <b>Amounts as per<br/>General Ledger<br/>Rs.</b> | <b>Amounts as per<br/>related<br/>Schedules/Systems/Co<br/>nfir<br/>mations<br/>Rs.</b> | <b>Difference<br/>Rs.</b> |
|--|--|---|---------------------------|
| Interest Waived off on<br>Pawning Advances | 1,444,112,514                                    | 1,436,000,000   | 8,112,514                 |
| Pawning-Capital                            | 33,195,655,836                                   | 33,193,638,670  | 2,017,166                 |

|                                    |               |               |             |
|------------------------------------|---------------|---------------|-------------|
| Receivables                        |               |               |             |
| Pawning-Interest                   | 4,988,985,574 | 4,562,264,731 | 426,720,843 |
| Receivables                        |               |               |             |
| Loans and Advances-<br>Capital     | 152,428       | 95,652        | 56,776      |
| Post Master General net<br>Balance | 98,547,448    | 121,485,722   | 22,938,274  |

### **2.2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) Out of a sum of Rs. 688,955,417 receivable from the General Treasury on account of dormant accounts, an amount of Rs. 349,747,209 had remained outstanding for over five years without being cleared.
- (b) Fraudulent withdrawals and Cashier's shortages as at 31 December 2014 were amounting to Rs.26,533,088 and Rs.1,510,900, Out of them Rs.17,638,522 and Rs.1,400,000 had remained outstanding for more than one year and three years respectively.
- (c) Receivable from interdicted and vacated staff and other parties as at 31 December 2014 was Rs. 5,124,716 and Rs. 20,467,466 respectively. Out of them Rs. 3,640,444 and Rs.8,238,233 had remained outstanding for more than five years and three years respectively.
- (d) The balances of Rs. 2,699,061 and Rs.3,522,755 appeared in the deposit clearance accounts and other liabilities respectively had remained outstanding for over three years without being settled.

### **2.3 Non – Compliance with Laws, Rules, Regulations and Management Decisions**

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Instances of non-compliance with following Laws, Rules, Regulations and Management Decisions observed in audit are given below.

#### **Reference to Laws, Rules, Regulations and Management Decisions**

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#### **Non-Compliance**

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|---|---|
| (a) Section 47 of the National Savings Bank Act, No.30 of 1971. | In the case of an account had lying dormant, the money held of such accounts should be transferred to the "Unclaimed Deposits Reserve". However since 2007, the Bank had not complied with this requirement and unclaimed deposits as at 31 December 2014 was Rs.3,394,845,461. |
|---|---|

- (b) Inland Revenue Act, No. 38 of 2000. The Bank had paid a sum of Rs. 58,108,398 as Pay As You Earn Tax for the year 2014 out of its own funds without being deducted from the salaries of the respective employees.
- (c) Inland Revenue Act, No 10 of 2006 as amended by Act, No. 10 of 2007. Tax declaration statements together with the applications when opening the bank accounts had not been obtained from the customers by 6 Branches in 97 instances.
- (d) Public Enterprises Circular No. PED  
12 of 02 June 2003  
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- (i) Section 5.2.4 Even though the draft budget should be submitted to the Board of Directors for their approval three months before the commencement of the financial year, the Bank had not complied with this requirement when getting Board Approval for the Annual Budget for over last five years.
- (ii) Section 5.2.5 The copies of final updated budget approved by the Board of Directors should be forwarded to the Line Ministry, the Department of Public Enterprises, General Treasury and Auditor General not later than 15 days before the commencement of the ensuing year. Nevertheless the Bank had forwarded the budget for the year 2014 on 29 January 2014.
- (e) Government Procurement Guidelines of the  
National Procurement Agency Circular No. 8  
of 25 January 2006 as amended by Circular  
No. 06 of 05 October 2006  
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- (i) Guideline 2.14.1 The Cabinet Appointed Procurement Committee should be authorized the contracts worth of more than or equal to Rs.100 million. However, it had not been considered in outsourcing the security services contract for Rs.127 million.
- (ii) Guideline 2.12 All members of Procurement Committee and Technical Evaluation Committee should be signed a declaration in the prescribe format at its first meeting, and such declarations should be preserved for a period of at least 5 years. However, this had not been complied in respect of contract valued at Rs.53,262,117 offered in six instances.
- (iii) Guideline 8.9.1 (b) A formal contract agreement should be signed when contract value exceeding Rs. 500,000. Nevertheless, this requirement had not been fulfilled in 140 instances for the procurement of goods valued at Rs. 448,425,067.

### **3. Financial Review**

#### **3.1 Financial Results**

According to the financial statements presented, the operations of the Bank and the Group for the year ended 31 December 2014 had resulted in a pre-tax net profit of Rs. 10,472 million and Rs.10,764 million respectively as compared with the corresponding pre-tax net profit of Rs.2,279 million and Rs. 2,669 million of the Bank and the Group respectively for the preceding year, thus indicating an improvement in financial results of the Bank and the Group by Rs.8,193 million or 359 per cent and by Rs. 8,095 million or 303 per cent respectively. This was mainly due to increase in net interest margins, profit earned on disposal of financial investments and disposals of investments held for trading during the year under review.

#### **3.2 Analytical and Financial Review**

The following observations are made.

##### **(a) Significant Accounting Ratios**

According to the information made available, some important accounting ratios of the Bank for the year under review as compared with the previous year are given below.

|  | <u>Sector</u><br><u>Ratios*</u> | <u>2014</u> | <u>2013</u> |
|--|---------------------------------|-------------|-------------|
| (a) <u>Profitability Ratio</u>                               |                                 |             |             |
| (i) Return on Average Shareholder's funds (ROE) (percentage) | 14.34                           | 30.2        | 5.1         |
| (ii) Return on Average Assets (ROA) (percentage)             | 2.19                            | 1.5         | 0.4         |
| (iii) Net Interest Margin (percentage)                       | 3.63                            | 3.0         | 1.7         |
| (b) <u>Capital Adequacy</u>                                  |                                 |             |             |
| (a). Equity to Total Assets (number of times)                | Not available                   | 1:33.51     | 1: 29.45    |
| (b). Capital Adequacy- Tier I (percentage)                   | 23.25                           | 20.5        | 18.5        |
| (c). Capital Adequacy- Tier II (percentage)                  | 20.62                           | 19.0        | 16.7        |
| (c) <u>Liquidity Ratio</u>                                   |                                 |             |             |
| Liquid Assets Ratio (percentage)                             | 67.76                           | 91.5        | 92.7        |

\*10 years average of annual statistics relating to Licensed Specialized Bank published by the Central Bank of Sri Lanka.

The following observation is made in this connection.

The return on average assets and the net interest margin had increased during the year under review by 275 per cent and 76 per cent respectively as compared with the previous year which were lower than the average Licensed Specialized Bank ratio of 2.19 per cent and 3.63 per cent respectively.

#### **4. Operating Review**

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##### **4.1 Performance**

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The following observations are made.

- (a) According to the information made available, the operating performance of the Bank during the year under review as compared with the preceding year is given below.

|                                     | <u>2014</u> | <u>2013</u> |
|-------------------------------------|-------------|-------------|
| Number of Branches                  | 236         | 229         |
| Number of Postal Branches           | 4,063       | 4,063       |
| Number of Account Holders (Million) | 18.3        | 17.9        |
| Number of ATMs                      | 260         | 247         |
| Number of School Bank Units         | 2,287       | 1,723       |

Seven Branches had newly established during the year under review and the number of account holders had increased approximately 400,000 and the ATM network had increased from 247 to 260 during the year under review.

(b) Profitability of the Branches

The following observations are made in this regard.

- i. The total loss incurred by 42 Branches and 02 Divisions during the year 2014 was Rs.242,077,891.
- ii. When comparing with the year 2013, the profit of the Credit and International Division had decreased by Rs. 544,785,829 and Rs.59,506,261 or 40 per cent and 39 per cent respectively during the year 2014.
- iii. Continuous losses of the “Redee Rekha” and E- Banking Divisions had increased by Rs.872,263 and Rs.3,403,373 or 02 per cent and 10 per cent respectively during the year under review as compared with the preceding year.

#### **4.2 International Bond Issue – 2013 and 2014**

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According to the Cabinet decision No.12/1767/504/163 of 19 December 2012, the Cabinet of Ministers granted its approval to issue the International Bonds amounting to US Dollars 1,000 million for the purpose of granting loans for the development of infrastructure projects. Accordingly, the Bank had issued the international bonds valued at US Dollars 750 million in the year 2013 and US Dollars 250 million in 2014 at an interest rate of 8.875 per cent and

5.15 per cent per annum respectively. According to the decision of the Cabinet of Ministers and the Offering Memorandum of the Bank, it had been directed to invest 50 per cent out of the bond proceed in Sri Lanka Development Bonds, 25 per cent in US Dollar denominated loans and 25 per cent in Sri Lankan rupee denominated loans.

The following observations are made in this connection.

- i. Even though 50 per cent of the proceed of US Dollars 750 had been invested in Sri Lanka Development Bonds, the balance 50 per cent of Rs.48,812 million or US Dollars 375 had been invested in the Treasury bonds up to the date of 31 December 2014 without being adhered with the Cabinet decision and Offering Memorandum of the Bank. Further the approval had been obtained to grant the loan amount of US Dollars 177.3 million and Rs.25,097.3 million as dollar denominated loans and rupee denominated loans out of the bond proceed of year 2013, the Bank had disbursed US Dollars 69.8 million and Rs.12,012.2 million from its own funds without considering the approval.
- ii. The entire amount of the proceeds of the Bond issued in the year 2014 had been invested in Treasury bonds without considering the requirement of the Offering Memorandum of the Bank. Even though the approval had been obtained to grant the loan amount of US Dollars 51.3 million and Rs. 5,000 million from proceeds, the Bank had not disbursed any loans out of the proceed.

#### **4.3 Delay in Construction of New Branches**

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Even though six lands at Panadura, Bambalapitiya, Mount Lavinia, Nugegoda, Kataragama and Negombo had been acquired in the year 2008, 2009 and 2011 for the construction of Bank Branches, the construction works had not been completed even up to 31 December 2014. As a result the rent amounting to Rs.7,545,000 had to be paid for the building obtained under rent basis to running those Branches in the year 2014 as well. However, the rent so paid could have been saved if the construction works completed within the stipulated time period.

#### **4.4 Loan Administration**

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Details of total loans and advances granted and loans fell to non-performing during the year 2014 as compared with the preceding year are given below.

| Loan Category  | Position as at 31 December 2014 |                |                        |                | Position as at 31 December 2013 |                |                        |                |
|----------------|---------------------------------|----------------|------------------------|----------------|---------------------------------|----------------|------------------------|----------------|
|                | Total Loan and Advances         |                | Non - performing loans |                | Total Loan And Advances         |                | Non - performing loans |                |
|                | Number of Loans                 | Amount Rs (Mn) | Number of Loans        | Amount Rs (Mn) | Number of Loans                 | Amount Rs (Mn) | Number of Loans        | Amount Rs (Mn) |
| Alankara Loans | 97                              | 83             | 7                      | 5              | 83                              | 66.3           | 6                      | 4.22           |
| Auto Loans     | 9,516                           | 787            | 299                    | 30             | 297                             | 301.56         | 2                      | 1.07           |

|                                |                |                |              |              |                |                  |              |                 |
|--------------------------------|----------------|----------------|--------------|--------------|----------------|------------------|--------------|-----------------|
| Commercial Loans               | 1              | 1,000          | -            | -            | 2              | 1,192.96         | 0            | 0               |
| Foreign Loans                  | 243            | 364            | 49           | 73           | 233            | 387.02           | 61           | 111.34          |
| Government Loans               | 36,454         | 24,257         | 1,154        | 651          | 31,133         | 21,112.56        | 1,462        | 813.89          |
| House and Property Loans       | 30,344         | 23,080         | 3,117        | 1,623        | 31,034         | 22,962.48        | 4,116        | 2,172.77        |
| HPL- Mihindu                   | 3              | 2              | 2            | 1            | 4              | 3.99             | 3            | 1.8             |
| NHD Jana Sewana                | 7              | 3,576          | -            | -            | 5              | 2,476.00         | 0            | 0               |
| Personal Loan on Guarantee     | 60,051         | 13,539         | 3,047        | 355          | 30,488         | 5,440.63         | 1,770        | 175.1           |
| Personal Loans on Mortgage     | 165            | 143            | 29           | 36           | 183            | 154.37           | 34           | 37.39           |
| Project Loans                  | 66             | 79,418         | 1            | 30           | 21             | 15,872.53        | 0            | 0               |
| Staff Loans                    | 18,072         | 4,309          | -            | -            | 10,133         | 3,232.94         | 0            | 0               |
| Staff vehicle Loans            | 400            | 141            | -            | -            | -              | -                | -            | -               |
| University Staff Housing Loans | 291            | 263            | 12           | 11           | 191            | 174.49           | 78           | 6.55            |
| Staff Motorcycle Loans         | 29             | 2              | -            | -            | -              | -                | -            | -               |
| Diripiyasa                     | 14             | 4              | -            | -            | -              | -                | -            | -               |
| Rata Ithuru Loans              | 742            | 46             | 498          | 26           | -              | -                | -            | -               |
| Others                         | 1              | 1,414          | -            | -            | 574            | 33.32            | 427          | 20.57           |
| <b>Total</b>                   | <b>156,496</b> | <b>152,428</b> | <b>8,215</b> | <b>2,842</b> | <b>104,381</b> | <b>73,411.15</b> | <b>7,959</b> | <b>3,344.72</b> |

The following observations are made in this connection,

(a). Non-Performing Loans

The value of total Non-performing Loans represent 1.86 per cent and 4.5 per cent as a percentage of total loan value of the years 2014 and 2013 respectively. In view of disbursement of new project loans amounting to Rs. 40,928 million, the non-performing loan rate had been decreased up to 1.86 per cent.

(b). Unrecovered Staff Loans and Advances

- i. The value of loans recoverable at the time of retirement of officers remained as at 31 December 2014 amounted to Rs 11,577,369.
- ii. A sum of Rs. 5,124,718 recoverable from 45 officers interdicted and vacated their posts had been included in the staff loans of Rs. 2,791,077,000 in the statement of financial position as at 31 December 2014.

(c). Out of total approved project loans balance of Rs. 90,479 million as at 31 December 2014, a sum of Rs.55,371 million represented the loan approved to the Road Development Authority (RDA). In which a sum of Rs. 11,711 million or 24 per cent had been disbursed to the RDA during the month of December 2014. Total loan disburse to the RDA up to end of the year under review was Rs. 49,218 million. However, the Bank had not obtained any physical progress report from RDA in each disbursement of the project loan as per the Project Finance Manual.



- (d). The Bank had granted a loan amount of Rs. 1,200 million to the Paddy Marketing Board on 06 September 2012 and 02 September 2013 in order to purchase of paddy, and the outstanding non-performing loan balance as at 31 December 2014 was Rs.1,000 million. Further, it had been obtained a Treasury guarantee which was lesser than Rs. 64 million from the real value of the guarantee and it also expired on 31 December 2014.
- (e). The Bank had approved Rs.14,227 million loan facility to the Sri Lanka Reclamation and Development Corporation on 27 June 2013 and disbursements as at 31 December 2014 was Rs. 1,600 million. Further, it is noted that this project loan had been identified as a loan proposed under the bond proceeds which will mature within five years and it had been granted with 10 year repayment period including a grace period of one year. In addition to that the first two disbursements amounting Rs.1,100 million were made before entering into a loan agreement and without obtaining Treasury Guarantee for the loan.
- (f). Project Loans Granted to Construction of a Housing Scheme  
Two loans amounting to Rs.50 million and Rs. 30 million had been granted to a private company during the year 1996 at an interest rate of 20 per cent for the above purpose. This loan was expected to be fully settled by July 1999.

The following observations are made in this connection.

- (i) The entire loan remained as arrears without any installments being paid.
- (ii) The interests paid to the Bank with regard to the above loans as at 06 November 2004 were Rs.8,524,520 and Rs.1, 546,028 respectively.
- (iii) According to the Board decision taken on 10 March 2006, the extent of the land acquired on behalf of the loan was 6 acres, 3 roods and 21.75 perches. Even though, according to the relevant valuation reports and the survey plans, the extent of the land was 6 acres, 2 roods and 12.8 perches and as such a difference of 1 rood and 8.95 perches was observed in audit.
- (iv) As a result of not recovering the above loan, the interest income and capital receivable to the Bank as at 31 December 2014 amounted to Rs.185,400,000.
- (v) A part of the above land valued at Rs. 184 million had been vested by Sri Lanka Navy and the land worth of Rs.113 million is belonging to the Bank. However, according to the valuation report obtained by the Bank, the actual value of the land was only Rs.70.3 million and as such a loss of Rs. 9.7 million had been incurred by the Bank.
- (vi) Four blocks of the above lands valued at Rs.18.8 million had been acquired by the Government by publishing a notice in the Gazette Extra Ordinary No. 1604/ 16 of 2 June 2009 and 1708/24 of 02 June 2011. So far, the Government had not paid any compensation in this regard.

(g). Advances on Pawning

- i. Although three public auctions had been conducted during the year under review, several number of unredeemed pawning articles valued at Rs. 10,457 million was remained in custody of the Bank without auctioning.
- ii. In the payment of pawning advances by 06 Branches of the Bank, payments amounting to Rs.13,453,311 had been made in 57 instances in respect of the gold articles in which the ratio of gold had been excessively shown, but subsequently they were found to be at the ratio between 10 to 18 and low at the physical verification.

**4.5 Management Inefficiencies**

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The following observations are made,

- (a). Seven building sites costing Rs.9,762,229 had been included in Building work in progress without any construction.
- (b). It was observed that the Bank had failed to achieve following targets as expected to perform during the year 2014.

| <u>Item</u>                        | <u>Target</u> | <u>Achievement</u> | <u>Non Achievement</u> |
|------------------------------------|---------------|--------------------|------------------------|
| Growth in Deposits                 | 14 per cent   | 10 per cent        | 4 per cent             |
| Total Deposits (Rs. Bn)            | 650           | 554                | 96                     |
| Return on Assets (Number of Times) | 1.8           | 0.18               | 1.62                   |
| Deposit per Employee (Rs. Mn)      | 206           | 165                | 41                     |

**4.6 Transactions of Fraudulent Nature**

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Pawning advances aggregating Rs,40.09 million had been granted on low caratage gold articles by the Pothuvil Branch due to non-complying to the internal control given below.

Not conducted the daily physical verification of pawned articles by the Manager at the end of the day.

- i. Advances on pawning facility provided for the persons who below the age of 18 years. (Minors)
- ii. Not obtained certification with regard to ownership of pawned articles.
- iii. Advances on pawning had been granted without prior approvals.

#### **4.7 Uneconomic Transactions**

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The following observations are made.

- (a) The Sri Lanka Navy had acquired the land with an extent of 0.479 hectares valued at Rs. 35 million on Chatham Street, which had been purchased by the Bank on 29 January 2009. The notice for the acquisition of land had been published in the Gazette of the Democratic Socialist Republic of Sri Lanka on 08 June 2009 and the inspection for compensation had been carried out on 28 June 2012. The Divisional Secretary of the Colombo had stated that the compensation and interest thereon would be paid on the valuation from the date of inspection. However, no any compensation and interest thereon had been received even up to the end of the year under review.
- (b) A sum of Rs.35,228,367 had been spent since 2008 to build an 18 storied building for the Bank and this had been shown in the accounts as works in progress without any construction carried out during the year under review or in the previous years due to this area is coming under high security zone. Therefore, the expenditure incurred thereon could be cited as a fruitless expenditure.

#### **4.8 Transactions in Contentious Nature**

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The Bank had incurred an amounting to Rs. 86,935,625 for the construction of buildings in eight lands without being obtained the legal ownership of the lands to the Bank.

#### **4.9 Investments**

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The following observations are made.

- (a) The overall cost of investments in shares of 44 quoted companies as at 31 December 2014 amounted to Rs.7,186,057,572. The market value of 32 of 44 of these quoted companies had diminished in value by Rs. 1,102,083,766 during the year 2014. Accordingly, it was observed that the market value of overall shares invested had diminished by Rs. 1,102,083,766 as at 31 December 2014.
- (b) There was no return from the investment made in 14 quoted companies and the invested value was Rs.1,086,087,759 as at 31 December 2014. Further, it was revealed that, the Bank had invested Rs. 777,483,527 in 07 quoted companies which, with the deprived the market value and no return had been received for more than three years thereon.
- (c) An amount of Rs. 876,835,323 was invested during the year under review in shares of 18 quoted companies which with the deteriorated market value in the year 2013. Further an amount of Rs. 48,828,710 was invested in three quoted companies during the year under review which dividend not received as well as deteriorated market value.
- (d) The total return from the Com Trust Equity Fund (COM) investment of Rs.10,000,000 for the total holding period (22 years) was only Rs.9,159,245 representing 5.09 per cent per annum. The average interest rate paid by the Bank for fixed deposits during last 22 years ranged from 12.75 per cent to 10.77 per cent per annum. In considering the average

interest paid to the customers, the Bank was deprived of a return on unit trust ranged from Rs. 15,766,833 to Rs.11,691,333.

## **5. Human Resources Management**

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The following observations are made.

- (a) The approved cadre of the Bank for the year under review was 3,927 and the Bank had deployed 3,358 employees during the year 2014 which includes 2,815 permanent staff, 162 trainees and 381 contract basis staff. Further, according to the information made available for audit, there were 634 vacancies and 65 excess staff as at 31 December 2014. However, action had not been taken to fill those vacancies even by 31 December 2014.
- (b) Even though the bank had recruited the banking assistants up to 2005 by conducting written examinations, the Bank had recruited 1,211 number of banking assistants from 2006 to 2014 on an interview basis instead of conducting the examinations. The staff so recruited was represented 47 per cent in the Southern Province and 23 per cent in the Western Province.
- (c) The senior management positions of the Bank had been vacant for more than one year due to non-availability of a succession plan and the deactivation of the Nomination Committee of the Bank since 2011.

## **6. Systems and Controls**

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Deficiencies observed in systems and controls during the course of audit were brought to the notice of the Chairman of the Bank from time to time. Special attention is needed in respect of the following areas of control.

- (a). Payments and Settlements of Loans and advances
- (b). Documentations on the Bank operations
- (c). Control over Fixed Assets
- (d). Control over Pawning System
- (e). Deficiencies in the Branch Operations