

## **Provident Fund – “A” of the State Mortgage and Investment Bank - 2015**

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The audit of financial statements of the Provident Fund “A” of the State Mortgage and Investment Bank (“the Fund”) for the year ended 31 December 2015 comprising the balance sheet as at 31 December 2015 and the profit and loss account and statement of changes in equity 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 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 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 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 Provident Fund "A" of the State Mortgage and Investment Bank as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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

#### **2.2.1 Comply with Sri Lanka Accounting Standards (SLFRS/LKAS)**

The cash flow statement for the year under review had not been prepared in accordance with the formats prescribed in LKAS 7- Cash Flow Statement.

#### **2.2.2 Accounting Deficiencies**

The following observations are made.

- (a) An unusual debit balance of Rs.439,835 had been shown in the tax payable account as at end of the year under review without being identified and adjusted.
- (b) A difference of Rs. 2,012,953 was observed between the balances of supplementary contribution receivable shown in the financial statements of the Fund and the corresponding balances shown in the financial statements of the State Mortgage and Investment Bank for the year under review.

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

Even though an amount of Rs.18,900 had been shown under sundry creditors as interest payable to the Provident Fund- 'B', such amount had not been shown in the Provident Fund 'B' account as receivable. Further, the payable balances aggregating Rs. 14,524 had been continuously brought forward in the accounts since long a period of time without being taken actions to settle them.

#### **2.2.4 Suspense Account**

A balance of Rs.18,268 had been shown in a Suspense Account (Ex- Members) since the year 2004, without being taking actions to clear the balance.

### 3. Financial Review

#### 3.1 Financial Results

According to the financial statements presented, the operations of the Fund during the year under review had resulted in a surplus of Rs.534,319 as compared with the corresponding surplus of Rs.881,137 for the preceding year, thus indicating a deterioration of Rs.346,818 in the financial result. Decrease of the interest on fixed deposits by Rs.452,964 was the main reason attributed for this deterioration.

#### 3.2 Operating Review

##### Performance

The main activities of the Fund are as follows:

- Collecting the Provident Fund on behalf of all employees attached to then Ceylon State Mortgage Bank.
- Payment of retirement benefits to the members.
- Providing loans to members on the basis of their contributions made to the Fund

The following observations are made in performing the above activities.

- (a) Total receipts to the Fund during the year under review had decreased by Rs.15,461,793 or 31.5 per cent as compared with the previous year while total payments to the members had increased by Rs. 4,702,328 or 26 per cent in the year 2015 when compared with the year 2014 due to increase of retirement of members during the year under review. The summary of the operations of the Fund during the year under review and in the preceding year are given below.

	2015		2014	
	Rs.	Rs.	Rs.	Rs.
Opening balance		<b>30,687,487</b>		<b>44,147,124</b>
Add: Receipts to the Fund				
- Contributions of members	359,943		500,841	
- Contributions of the Bank	539,914		751,262	
- Interest income	2,072,629		3,722,539	
	-----	2,972,486	-----	4,974,642
		<b>33,659,973</b>		<b>49,121,766</b>
Less: Payments from the Fund				
- Payment to members		(23,136,607)		(18,434,279 )
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Closing balance		<b>10,523,366</b>		<b>30,687,487</b>
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(b) According to the information made available for audit, no loans had been granted to the members of the Fund during the year under review and in the previous year.