People's Bank - 2015

The audit of consolidated financial statements of the People's Bank ("the Bank") and the consolidated financial statements of the Bank and its Subsidiaries ("Group"), for the year ended 31 December 2015 comprising the statements of financial position as at 31 December 2015 and the income statement, statement of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows 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 . To carry out this audit I was assisted by a firm of Chartered Accountants in public practice. The financial statements of the Subsidiaries were audited by firms of Chartered Accountants in public practice appointed by the members of the respective Subsidiaries.

The Bank has been exempted from the provisions of Part II of the Finance Act, No. 38 of 1971 by an order of the Minister of Finance and Planning published in the Government Gazette No.715 of 14 May 1992 by virtue of powers vested in him by Section 5(1) of the said Finance Act. The Bank is also exempted from all Treasury and Public Administration Circulars as decided by the Cabinet of Ministers and conveyed by the Secretary to the Treasury by his Circular No. EA 02/BC/PB/01 dated 10 April 1992.

This report is issued in terms of Article 154(6) of the Constitution of Democratic Socialist Republic of Sri Lanka.

1.2 Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as Board 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. 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 Board, 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 audit opinion.

2. Financial Statements

2.1 Opinion – Bank

In my opinion, the financial statements give a true and fair view of the financial position of the People's 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.

Opinion – Group

In my opinion, the consolidated financial statements give a true and fair view of the financial position of the Group 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 Group Financial Statements

The financial statements of the Bank comprised the consolidation of the financial statements of the Domestic Banking Units, the Off-shore Banking Unit and the foreign operations that are an integral part of the Bank. The Group financial statements comprised consolidation of the financial statements of the Bank, its Subsidiaries and Associates in compliance with Sri Lanka Accounting Standards (LKAS). The Bank had owned 99 per cent of the share capital of the People's Travels (Pvt) Ltd., 75 per cent of the People's Leasing and Finance PLC., 50.16 per cent of the People's Merchant Finance PLC and 37.3 per cent of the Smart Net Lanka (Pvt) Ltd at the end of the year under review.

The ownership of the Bank as at 31 December 2015 as compared with the preceding year in respect of each Company is as follows.

	Direct Investments			
	2015		**2014**	
	Rs.000	**Percentage**	**Rs.000**	**Percentage**
Subsidiaries				
People's Travels (Pvt) Ltd	4,950	99	4,950	99
People's Leasing and Finance PLC	840,958	75	1,040,958	75
People's Merchant Finance PLC	629,858	50.16	-	-
Total investment in Subsidiaries	**1,475,766**		**1,045,908**	
Associates				
People's Merchant Finance PLC	-	-	273,100	26.13
Smart Net Lanka (Pvt) Ltd	25,000	37.3	25,000	37.3
Total investment in Associates	**25,000**		**298,100**	
Less – Provision for impairment				
Smart Net Lanka (Pvt) Ltd	(25,000)		(25,000)	
Net investment in Associates	**-**		**273,100**	

2.3 Comments on Financial Statements of the Bank

2.3.1 Comply with Sri Lanka Accounting Standards (LKAS) /(SLFRS)

The following observations are made.

(a) LKAS 23 - Borrowing Costs

The Bank had capitalized contractor's borrowing costs of Rs.136, 436,283 (with taxes) as a part of assets of the Bank during the year under review in contrary to the provisions in the Standard. As a result the assets and profit of the Bank had been overstated by similar amount.

(b) LKAS 39 - Financial Instruments Recognition and Measurement

The following observations are made.

(i) The Bank had calculated the value of financial assets held to maturity based on the simple interest method and compounding interest method, instead of amortizing the same by using Effective Interest Rate (EIR). Hence, there was a difference of Rs. 44,224,027 between the amortized value and the value which had been recognized in the financial statements. Further, the Bank had recognized the interest income for Treasury Bonds (TB) on a simple interest base instead of being recognized by using Effective Interest Rate (EIR). Hence, there was a difference of Rs.71,474,408 between the fair value and the value which had been recognized in the financial statements.

(ii) Investments in unquoted shares valued at Rs.74, 590,000 which were classified as Available for Sale (AFS) had been carried at cost instead of being recognized at fair value by using valuation techniques.

(c) SLFRS 07 - Financial Instruments Disclosures

The Group financial risk management disclosure was not included as a note to the Group financial statements.

(d) LKAS 36-Impairement of Assets

(i) The Bank's threshold for selecting individually significant customers is an aggregate loan portfolio of more than Rs.25 million. However, it was noted that in the Branch network, the Bank had not considered the aggregate loan portfolio of customers, but had considered customers with individual loans of more than Rs.25 million as individually significant customers, due to the limitation in existing system. Therefore the impairment provision may not be adequate due to non-consideration of the aggregate loan portfolio of the individual customers in the Branch network of the Bank.

(ii) The Bank had not considered the penalty charges and late charges of the customers for the calculation of individual impairment.

2.3.2 Unexplained Differences

The following unexplained differences were observed.

(a) Differences of Rs.358,084,000, Rs.338,802,000 and Rs.3,107,928,000 were observed between the ledger balances and the system generated reports over loans and receivables, pawning and interest in suspense respectively.

(b) A difference of Rs.5,842,739 was observed between the fixed deposits and savings accounts balances shown in Silver lake Integrated Banking System (SIBS) Data Warehouse and the balances shown in the general ledger.

2.3.3 Suspense Accounts

The following observations are made.

a) The Bank had spent a sum of Rs.320,809,839 from the year 2011 to 2016 for Face Lifting Project of the People's Bank Head Office Building and this cost had been remained in suspense account without being charged against income.

b) A sum of Rs.51,716,168 had remained in 04 long-outstanding unreconciled suspense accounts which were categorized as other loans under loans and receivables without being cleared even as at 31 December 2015.

2.3.4 Lack of Evidence for Audit

Original lease agreements for 21 leasehold properties valued at Rs.59,799,479 had not been made available for audit.

2.3.5 Non compliance with Laws, Rules, Regulations and Management Decisions

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The following instances of non compliances were observed in audit.

	Reference to Laws, Rules, Regulations and Management Decision		Non-compliance
(a)	People's Bank Act, No. 29 of 1961	i.	Authorized share Capital of the Bank was limited to 20,000,000 ordinary shares. Although the Bank had issued only 999,960 shares, the capital pending allotment amounting to Rs.7,152 million was equal to 143,040,000 shares which exceeds the authorized share capital as mentioned in the Act. However, a sum of Rs.7,152 million was held in a capital pending allotment account as authorized share capital which is not yet increased by amending People's Bank Act.

		ii. The Bank had issued Rs.10,000 million worth debentures to the People's Bank Pension Fund without the approval of the Minister in charge for Finance.
(b)	Guidelines of the Central Bank of Sri Lanka No. 02/17/402/0073/001 of 12 April 2005	All Licensed Commercial Banks were required to increase their capital up to Rs. 2,500 million by the end of the year 2007. However, the Central Bank of Sri Lanka had permitted few banks who had not achieved that required capital, to enhance the amount at least by 50 per cent by the end of the year 2006 and to completely reach Rs. 2,500 million by end of 2007. Nevertheless, the Bank had not reached the required capital and the deficiency that existed as at 31 December 2014 was amounted Rs.2,450 million.
(c)	Finance (Amendment) Act, No. 18 of 2009	The Bank had not paid Rs. 9,588,070 to the Commissioner General of Inland Revenue as Construction Industry Guarantee Fund Levy (CIGFL) in respect of construction projects relating to 07 Branches of the Bank.
(d)	Nation Building Tax (NBT) Act, No. 9 of 2009	Even though the construction contractor is exempt from NBT, sums of Rs.28,806,382 and Rs.3,403,620 had been paid by the Bank to the contractors as NBT and Value Added Tax (VAT) on NBT respectively.

3. Financial Review

3.1 Financial Results

According to the consolidated financial statements presented, the operations of the Bank and the Group for the year ended 31 December 2015 had resulted in a pre-tax net profit of Rs.19,520 million and Rs. 24,121 million respectively as compared with the corresponding pre-tax net profit of Rs. 17,231 million and Rs. 21,627 million of the Bank and the Group respectively for the preceding year, thus indicating the improvement in the financial results of the Bank and the Group by Rs. 2,289 million and Rs. 2,494 million respectively. This was mainly due to increase of interest income and net gains from trading.

3.2 Value Addition of the Bank

According to the information made available, the value addition of the Bank for the year under review and the preceding four years are as follows.

	2015 Rs. million	2014 Rs. million	2013 Rs. million	2012 Rs. million	2011 Rs. million
Value Added					
Income earned by providing banking services	95,454	86,078	111,859	87,367	62,796
Cost of services	(55,932)	(61,802)	(81,525)	(58,259)	(38,596)
Value added by banking services	39,522	24,276	30,334	29,108	24,200
Non-banking income	8,195	10,299	8,597	7,410	6,030
Provision for bad debts	(3,740)	-	-	-	-
Net impairment loss on financial assets	-	1,430	(13,716)	(3,874)	(971)
Revaluation surplus on land and building	-	-	5,413		
	43,977	**36,005**	**30,628**	**32,644**	**29,259**
Value Allocated to Employees					
Salaries, wages and other benefits	17,378	14,005	12,385	13,505	10,084
To Government					
Dividend paid to GOSL on Bonds	220	220	220	201	-
Special levy to Treasury	3,000	6,000	4,500	4,500	4,500
PAYE Tax	315	144	289	373	25
Income tax	6,922	3,012	2,816	4,355	5,154
VAT	5,276	3,857	1,953	2,679	2,681
Other indirect taxes	1,101	892	261	203	130
To Expansion and Growth					
Retained Income	8,795	6,933	7,332	6,116	5,657
Depreciation/Amortization	970	942	872	712	1,028
Total Value Addition	**43,977**	**36,005**	**30,628**	**32,644**	**29,259**

The following observations are made in this regard.

a) Value addition of the Bank by providing banking services had increased by 11 per cents from Rs. 86,078 million in 2014 to Rs. 95,454 million in 2015.

b) In the year 2015, the value allocation to employees, government and to expansion and growth has increased by 24 per cent, 19 per cent and 24 per cent respectively as compared with the preceding year

3.3 Analytical Financial Review

3.3.1 Profitability

The following table gives a summary of the financial result of the Bank and the Group at various stages for the year under review and the preceding year.

	Year ended 31 December			
	2015		2014	
	Bank	Group	Bank	Group
	Rs. million	Rs. million	Rs. million	Rs. million
Interest Income	92,403	110,278	84,480	104,181
Interest Expenses	(48,732)	(56,021)	(54,362)	(64,211)
Net Interest Income	43,671	54,257	30,118	39,970
Other Income	11,071	13,378	11,776	14,338
Operating Income	**54,742**	**67,635**	**41,894**	**54,308**
Impairment for Loans and Other Losses	(3,740)	(5,168)	1,430	118
Net Operating Income	51,002	62,467	43,324	54,426
Operating Expenses	(25,633)	(31,975)	(22,455)	(28,800)
Operating Profit Before VAT & NBT on Financial Services	25,369	30,492	20,869	25,626
VAT & NBT on Financial Services	(5,849)	(6,371)	(3,638)	(3,979)
Operating Profit After VAT & NBT on Financial Services	**19,520**	**24,121**	**17,231**	**21,647**
Share of Profit/ (Loss) of Associates	-	-	-	(20)
Profit Before Tax	**19,520**	**24,121**	**17,231**	**21,627**
Tax Expenses	(6,922)	(9,053)	(3,012)	(4,674)
Profit for the Year	**12,598**	**15,068**	**14,219**	**16,953**

3.3.2 Significant Accounting Ratios

Certain significant ratios for the year under review and the preceding four years are given below.

		CBSL Norms %	Actual 2015 %	2014 %	2013 %	2012 %	2011 %
a)	Capital Adequacy Ratio (Tier 1)	5.00	9.9	10.9	10.4	9.8	9.6
b)	Capital Adequacy Ratio (Tier 1+ Tier 2)	10.00	12.5	14.3	15.0	14.0	14.8
c)	Return on Assets	-	1.8	1.8	1.1	2.0	2.6
d)	Non Performing Advances to Total Advances	-	2.4	3.2	5.3	2.8	3.4
e)	Liquidity Ratio						
	- Domestic Banking Unit	-	25.9	30.3	25.2	21.8	21.5
	- Foreign Currency Bank Unit		21.7	21.8	22.3	21.8	24.0

4. Operating Review

4.1 Performance of the Branches

According to the information made available, out of 346 Branches 339 Branches had been able to record a total profit of Rs. 14,962 million before reallocated expenditure, while 07 Branches had been recorded a total loss of Rs. 102 million for the year under review. Accordingly the net profit of 346 Branches was Rs. 14,860 million before the reallocated expenditure over the preceding year net profit of Rs. 9,035 million, thus indicating an improvement of Rs. 5,825 million or 64 per cent in the financial results of the Branches.

The zonal wise Branch network of the Bank and their profitability for the year ended 31 December 2015 are given below.

Zone	Number of Branches	Profit/ (Loss) 2015	2014	Increase/ (Decrease)
		Rs. million	Rs. million	Rs. million
Central Zone	43	1,547	885	662
Eastern Zone	30	701	(242)	943
North Central Zone	26	901	502	399
Southern Zone	41	1,336	845	491
Sabaragamuwa Zone	32	990	784	206
Western Zone I	58	4,416	3,425	991
Western Zone II	39	2,390	1,473	917
Wayamba Zone	31	1,338	905	433
Northern Zone	21	438	(61)	499
Uva Zone	25	803	519	284
Total	**346**	**14,860**	**9035**	**5,825**

4.2 Human Resources Management

It was observed that key positions of the Bank such as General Manager, Head of Marketing, Senior Deputy General Manager(Risk Management) and Head of Treasury and Investment Banking had been filled on contract basis for a considerable period ranging 9 to 15 years. It was further observed that the management executives who were recruited on contract basis had been promoted time to time in their positions by renewing the agreements. However, the procedure for those promotions had not been revealed to audit.

4.3 Loans Administration

The following observations are made;

(a) <u>Non-performing Loans (NPL)</u>

(i) The total outstanding value of 794 non-performing loans (NPL) and 44 non-performing overdrafts over Rs.5 million as at 31 December 2015 were Rs.11,335,713,635 and Rs. 650,103,850 respectively.

(ii) The value of outstanding balances of 67 loans over one million within 19 Branches which had not been paid at least a single instalment as at 31 December 2015 were Rs.456,577,544.

(iii) Loans granted to a state owned enterprises had remained in NPA Section for a long period. The total outstanding as at 31 December 2015 was Rs. 146,181,320 (comprising the capital of Rs.108,331,791 and interest of Rs.37,849,529).

(iv) Non- performing Loans and overdrafts of major ten customers had remained as at 31 December 2015 aggregated Rs. 7,454,390,748, and Rs.408,468, 334 respectively.

(v) Capital and interest relating to outstanding loans and advances amounting to Rs.42,349, 646 had been written off during the year under review.

(vi) Corporate Banking Division had granted 27 loan facilities to 04 customers and subsequently it had been categorized as non-performing. Total outstanding balance of Rs.18,840,825 and USD 251,235 as at the end of May 2015, of those facilities was remained without being recovered. However the Branch had not taken satisfactory actions to recover the outstanding balances.

(vii) The Corporate Banking Division had granted 11 trade finance facilities and a permanent overdraft (POD) to a particular customer and it had been categorized as Non-Performing on 25 April 2005. As at 12 May 2015 outstanding balance was Rs.17,434,782 comprising Capital of Rs.6,653,548 and interest of Rs.10,781,234. Since the Forced Sale Value (FSV) of the mortgaged property of the loans has reduced by Rs.1,500,000 from year 2002 to year 2011 as per the final valuation done on 24 October 2011, total capital outstanding balance was exceeded the Forced Sale Value of the property by Rs. 2,153,548.

(viii) Off-Shore Banking Unit had granted following 13 facilities to 04 customers and subsequently it had been categorized as non-performing. Total outstanding balance of Rs.228,449,656 (USD 1,649,456 @ Rs.138.50) as at 03 November 2015 of those facilities had remained without recovering and the Branch had not taken satisfactory actions to recover the outstanding balances.

Customer	**Number of Facilities**	**Period**	**Total Granted Amount**	**Total outstanding as at 03 November 2015**
			USD	**USD**
A	02	2012	250,000	308,595
B	09	2013-2014	138,400	100,211
C	01	2012	130,000	78,031
D	01	1997	1,500,000	1,162,619
Total	**13**		**2,018,400**	**1,649,456**

(ix) The Off-Shore Banking Unit had granted 42 facilities to a particular company and it had been categorized as non-performing on 13 September 2012. The total outstanding balance of Rs.360,325,147 (USD 2,599,985 @ ex. Rate of Rs.138.58) as at 03 November 2015 was remained without recovering. (Total outstanding balance of USD 2,599,985 consists capital of USD 2,150,140 and interest and other charges of USD 449,845).

Capital outstanding balance of the customer exceeds the Forced Sale Value (FSV) of the mortgage property by Rs.122.98 million (Rs.297.98 million – Rs.175 million). It was further observed that the Bank had granted facilities exceeding the limit of 75 per cent of the FSV with the approval of Executive Credit Committee of the Bank violating Section 6 (4.6.11) of the Credit Procedure Manual of the Bank.

Even though the audited financial statements of the above company had recorded significant net loss since 2009 to 2012, the Branch had continuously granted loan facilities without evaluating the credit worthiness of the customer.

(x) The Off-Shore Banking Unit had granted block loan, Overdraft and 66 trade finance facilities to a company during the period 1995-2007 and subsequently it had been transferred to Non-Performing category. As at 31 October 2015, capital outstanding balance of Rs.761,051,545 (USD.5,494,957 @ Rs.138.50) of those facilities were remained without recovering. Since these facilities had been granted without obtaining securities, the recoverability is in doubt.

(b) **Loans Granted with Inadequate Securities**

The Corporate Banking Division had granted 05 facilities without obtaining adequate securities and the capital outstanding balance was Rs. 33,202,964,594 as at 31 December 2015.

(c) **Selected Non-performing Loans categorized under large 25 Customers of the Bank**

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The following observations are made in this regard.

i. The Branch of the Bank in Olcott Mawatha had granted 06 loan facilities to a company and Subsequently those loans had been categorized as non performing. As at 20 October 2015, total outstanding balances of Rs. 681,293,929 (Capital of Rs.105,963,563 and interest and other charges of Rs.575,330,366) of those facilities were remained without recovering.

Customer had formed the company to build a seven storied commercial building at the aforesaid property which is owned by the Urban Development Authority (UDA) and lease hold rights of which had been mortgaged to the Bank. Due to delay of construction, delay of repayments of the loans and delay of payments of lease rentals, UDA had acquired the lease hold right. Due to court intervention and UDA objections, the Bank had failed to recover total outstanding balance of Rs.681,293,929 as at 20 October 2015 of above facilities. Hence, the Bank may incur a huge loss from the above loans in future.

ii. Three loan facilities had been granted to a company by the Branch in Embilipitiya and as a result of the company had been vested by the government without paying any consideration, the repayment of the loans had been suspended and facilities had been transferred to NPL category. As at 20 October 2015, total outstanding balances of Rs.270,159,085 (Capital of Rs.153,802,366 and interest and other charges of Rs.116,356,719) of those facilities were remained without recovering.

iii. Fifty four loan facilities amounting to Rs.3,030 million granted to a group of company (for 08 companies) under several CIF numbers during the period 1994-1997 had been transferred to Non-performing category. The total outstanding balances of those facilities remained unrecovered as at 30 September 2015 was Rs.19,875,107,361 (Capital of Rs. 3,030,441,658 and interest and other charges of Rs.16,844,665,702).

The following observations are also made in this connection.

- Regular valuations had not been carried out on 04 immovable mortgaged properties which had been obtained to secure the overdraft facilities approximately Rs.165 million granted to a holding company by the Bank. Further, the Bank had failed to realize the property at Kollupitiya as to the UDA not given the consent to parate execute the above property.

Though the Bank had acquired the property at Nuwaraeliya, the customer had filed objections against the ejectment case filed by the Bank and the Bank had failed to realize the value. Further, the property at Hendala had not been realized due to fraudulently transfer that property to another party.

- There were large number of cases had been filed relating to recovery of outstanding balances of the Group of companies. As per the letter dated 13 March 2015 of Deputy General Manager – Recoveries, during the period of 2006 – 2015, the Bank had spent approximately Rs.28.6 million as legal expenses. However, the Bank had failed to ascertain any asset belongs to the company.

- It was observed that the Bank had negligently granted loan facilities to the group of companies without proper evaluation of securities mortgaged as well as evaluation of credit worthiness of the customer and as such it will affect to incur a huge lost to the Bank in future.

iv. Loan facilities amounting to Rs.151,155,182 had been granted to another group of companies under several CIF numbers during the period 1989-2001 and subsequently it had been transferred to Non-performing category as a result of the garment factory has been closed due to cancellation of quota. Total outstanding balances as at 22 October 2015 of those facilities was Rs.797,274,233 (Capital of Rs. 143,436,201 and interest and other charges of Rs.653,838,032). The Bank had granted 02 overdraft facilities out of above facilities to the customer in 1999 and 2000 without considering borrower's repayment capabilities and at that time that borrower had become black listed customer. Total outstanding balance of those 02 overdraft facilities as at 22 October 2015 was Rs.1,618,643.

v. The Bank had granted finance facilities to a company and subsequently it had been categorized as Non-performing. Total outstanding balance of Rs.2,519,341,759 (Capital of Rs. 351,053,992 and interest and other charges of Rs.2,168,287,767) as at 20 October 2015 was exceeded the total of the Forced Sale Value of the mortgaged property and the balance of the Margin Account by Rs.2,150,541,759.

vi. A company had been granted a loan of Rs.351 million by the Bank for export of tea to Russia on a guarantee furnished by the General Treasury. Out of those facilities an amount aggregating Rs.1,967,320,452 (Capital of Rs. 351,030,187 and interest and other charges of Rs.1,616,290,265) was remained without recovering as at 20 October 2015. Although the Treasury indemnity had been expired from the date of 08 August 1996, it had not been renewed.

The Ministry of Finance had rejected to claim for losses to the Bank from that loan and had requested to write off the loan (as per the letter No.SA/CM7244 dated 06 October 2015 of Deputy Secretary to the Treasury) stating that Treasury indemnity had been expired and the Bank had not complied the conditions of the cabinet memorandum. Hence, the Bank may incur a huge loss from that loan.

vii. The Bank had granted 02 loan facilities to a company and subsequently it had been categorized as Non-performing. As at 26 October 2015, total outstanding balances of Rs.478,511,989 (Capital of Rs. 87,238,533 and interest and other charges of Rs.391,273,456) of those facilities were remained without recovering. The second loan had been granted by the bank while previous loans remaining as non-performing since 01 June 2000.

The bank had obtained commercial papers as security against the facilities and the company had been wound up by the district court of Colombo. But the bank had not taken satisfactory actions to recover the above outstanding balances.

(d) Non-performing Loans of Corporate ii Branch

The total outstanding balance of non-performing loans of Corporate II Branch of the Bank was Rs.1,175 million as at 30 September 2015 (Capital of Rs.284 million and Interest due of Rs.891 million) which consist of 305 loans of 163 customers. It was further observed that majority of those loans were in the non-performing category for more than 15 years. Nevertheless, satisfactory actions had not been taken to recover those outstanding loans.

4.4 Management Weaknesses

Annual General Meeting of People's Bank Widows and Orphans Pension Fund

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This Fund has been established in 1965 for the payment of pensions to widows of former employees and retired employees of the Bank who are contributors to the Fund. The members of the Fund contribute 5 per cent of their basic salary. Annual General Meeting of this Fund had not been held for last 13 years.

4.5 Operating Weaknesses

The following observations are made.

a) The Bank had allocated a provision of Rs. Rs.1,602.49 million in its capital budget to construct its Branches since 2009 onward, However, those works had not been commenced even up to 02 March 2016. The total expected expenditure for those 28 projects from 2009 to 2016 was Rs. 3,045.55 million.

b) Contract for construction of 10 Branches costing Rs.1,650,183,037and 03 other projects with the estimated cost of Rs.314,626,352 had been awarded to People's Leasing Property Development Ltd (PLPDL) a sub-subsidiary of the Bank (subsidiary of People's Leasing Company) without following procurement procedure and evaluating the contractor's professional competence and historical performances.

The following observations are also made in this connection.

(i) A sum of Rs.1,650,183,037 had been paid to the contractors without an independent certification of works done and without retaining any retention.

(ii) The cost per square feet of the projects which were handled by PLPDL was very high as compare to the cost per square feet of the projects which were handled by the Bank and also industrial norms. The average cost per square feet of 10 Branches constructed by the PLPDL was Rs.13,567 and the average cost per square feet of 09 Branches constructed by the Bank was Rs.7,015.

(iii) At the physical examination carried out at Anamaduwa and Piliyandala Branch premises which were constructed by the PLPDL, it was revealed that the major defects had been occurred within very short period of time. Major damages to the office ceiling due to leakage of rain water, major wall cracks, idle office places, water inflows through front glasses on rainy days to the building, overflowing the drainage pits and damages at staff toilets were observed.

c) Digitalization project of the Bank had been awarded to the Silverlake Company who is the current supplier of Core Banking System at a cost of USD 11 million in the month of August 2015 without following the formal procurement procedure. A proper feasibility study also had not been curried out by the Bank to ensure the possibility of the project with the support of external specialist from recognized professional body.

4.6 Transactions of Continues Nature

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It was noted that the Bank had abandoned 03 construction projects after incurring miscellaneous expenses of Rs.3,601,897 due to not properly evaluate the viability of those projects. Further, although the Bank had already decided and budgeted to construct 03 Branches, subsequently it had been decided to temporally hold after incurring miscellaneous expenses of Rs.1,575,147 due to expenses are comparatively high. As a result this expenditure had become fruitless.

4.7 Idle Properties

It was observed that the following lands were laying as idle as at 31 December 2015.

Location	Description	Year of Purchase	Cost	Revalued Amount	Period of Idle
			Rs.	Rs.	years
Chilaw	Freehold	1979	22,500	10,000,000	36
Mahara	Freehold	1989	70,000	19,500,000	26
Kadawatha ii	Leasehold	2012	18,500,000	Not Available	03
Siribopura	Leasehold	2014	13,000,000	-do-	01
Imaduwa	Leasehold	2014	4,780,000	-do-	01

4.8 Uneconomic Transactions

The Bank had purchased land and improvement at Thangalle at a cost of Rs. 180,440,450 for a Branch office from People's Leasing Property Development Ltd in the month of October 2012. However, the value of the property had been drastically dropped by Rs.110,440,450 at the valuation carried out by the Government Valuer as at 30 June 2013, after 06 months from the purchase.

4.9 Identified Losses

The following observations are made in this regard.

a) In the year 2012, the Bank had leased out a building to a charity without following proper procedure for a monthly rental which lower than the rental mentioned in the valuation report. Therefore, the Bank had incurred a loss of Rs.40,116,300 for the period from July 2012 to July 2016.

b) The Urban Development Authority (UDA) had granted an approval to allocate a block of land at Siribopura - Hambanthota to the Bank on 30 years lease basis to establish its Branch. The Bank had paid Rs.14,857,024 (including taxes) on 19 March 2014 being 50 per cent of the lease premium. However, no agreement had been entered into between the Bank and the UDA. Even though the development of the land should be commenced within six months from the date of handing over the land and completed within two years, it was observed that the Bank had not commenced the development of the land and it had been lying idle. The UDA had agreed to set off the final payment of Rs.12,914,182 in respect of the land allocated at Siribopura from the refundable deposit of the Bank paid for previous car park at Colombo. So it was noted that as the commencement of the above development is in doubt, the Bank may incur a loss of Rs.27,771,206.

c) It was observed that the Bank had already decided and budgeted to construct 04 Branch buildings by obtaining services of the Engineering Services Department of the Bank and subsequently it had been decided to award the contracts to People's Leasing Property Development Ltd (PLPDL) after incurring Rs.10,725,573 as miscellaneous expenses. As such, the Bank had duplicated certain project expenses and consequently had incurred a loss of Rs.10,725,573.

4.10 Market Share of the Bank

The market share of the Bank in the banking sector has been significantly decreased during the last five years. Details are as follows.

Details		Years				
		2015	2014	2013	2012	2011
Assets	As a percentage	14.6	14.7	15.7	17.1	15.6
Deposits Percentage	As a percentage	16.6	16.9	18.3	18.9	17.9
Loans and Advances	As a percentage	17.6	17.6	19.9	21.0	19.5

No significant growth had been achieved in the year 2015 when comparing with previous four years period.

5 Accountability and Good Governance

5.1 Action Plan

The Bank had not prepared an Action Plan for the year 2015 by clearly identifing the responsibilities of the staff members with goals and targets to be achieved during the plan period. Therefore, it was unable to measure what extent to the Bank had achieved its goals and targets during the year under review.

5.2 Procurement Plan

The Bank had only prepared a capital expenditure budget without preparing a Procurement Plan with the following details.

(i) Methods of procurement
(ii) Proposed date for issuing bid documents
(iii) Proposed date for awarding contracts