

Sri Lanka Deposit Insurance and Liquidity Support Scheme – 2017

The audit of financial statements of the Sri Lanka Deposit Insurance and Liquidity Support Scheme (the Scheme) managed by the Central Bank of Sri Lanka for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement 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 Paragraph 10.3 of the Sri Lanka Deposit Insurance Scheme Regulations published in the Extraordinary Gazette of the Democratic Socialist Republic of Sri Lanka No. 1673/11 dated 28 September 2010. My comments and observations on the above financial statements 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 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, in consistent with International Auditing Standard 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 Scheme’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 Scheme’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 audit opinion.

1.4 Objectives of the Scheme

The Scheme had been established under the Regulations published in the Extraordinary Gazette of the Democratic Socialist Republic of Sri Lanka No. 1673/11 dated 28 September 2010 by the Chairman of the Monetary Board under the Section 32 E of the Monetary Law Act (Chapter 422). The main objective of the Scheme is initially outlining a mechanism to protect small depositors from failure of financial institutions, thereby promoting the stability of financial institutions by maintaining small – depositor – confidence.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Sri Lanka Deposit Insurance and Liquidity Support Scheme as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Scheme for the year under review had resulted in a pre-tax surplus of Rs.9,865.96 million as compared with the corresponding pre-tax surplus of Rs.8,839.37 million in the preceding year thus indicating an improvement of Rs. 1,026.59 million or 11.6 per cent in the financial results. The increase of total income by Rs.2,522 million as against the increase in total expenditure by Rs.1,495.41 million as compared with the preceding year was the main reason attributed for this improvement.

3.2 Analytical Financial Review

3.2.1 Position of the Fund

According to the statement of the financial position of the Scheme, the balance in the Fund of the Sri Lanka Deposit Insurance and Liquidity Support Scheme as at 31 December 2017 had been increased by Rs. 9,865.96 million or 28.80 per cent as compared with the corresponding balance of Rs.34,257.3 million as at end of the preceding year.

3.3 Operating Review

3.3.1 Operating Position

In terms of Regulation No.9.10 of Sri Lanka Deposit Insurance and Liquidity Support Scheme, the payment of compensations shall come into effect in the case of a suspension/cancellation as ordered by the Monetary Board on or after 01 January 2012. In absence of such Monetary Board decision taken to suspend/cancel of license of any member institution on or after 01 January 2012 the requirement to pay compensation from Sri Lanka Deposit Insurance and Liquidity Support Scheme did not arise up to 31 December 2017.

3.3.2 Identified Loss

A sum of Rs.137.18 million had been invested on Reverse Repurchase Agreement matured on 31 March 2016 for a sum of Rs.147.05 million with a primary dealer by the Scheme on 01 April 2015. The primary dealer had withdrawn the underlying securities of the above investment without reassigning any security with respect to the withdrawn securities.

Then, Monetary Board of the Central Bank had decided to rollover the above investment without collaterals as per the Board decision taken on 04 December 2015. Accordingly, impairment allowance amounted to Rs.144.25 million for the above investment had been made in the financial statements of the Scheme on 31 December 2015. Even up to 31 December 2017, the above investment is rollover and unwinding of interest on the above investment up to 31 December 2017 was Rs. 26.24 million.