

## **1.1 Opinion**

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The audit of the financial statements of Central Bank of Sri Lanka (the “Bank”), which comprise the statement of financial position as at 31 December 2018, and the statements of income, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018, Section 13(1) of the Finance Act, No. 38 of 1971 and Section 42(2) of the Monetary Law Act ( Chapter 422). My comments and observations which I consider should be report to Parliament appear in this report. To carry out this audit, I was assisted by a firm of Chartered Accountants in public practice to examine the compliance with International Financial Reporting Standards.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

## **1.2 Basis for Opinion**

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I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## **1.3 Responsibilities of Monetary Board and Those Charged with Governance for the Financial Statements**

Monetary Board is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as Monetary Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Monetary Board is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Bank is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Bank

## 1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Monetary Board.
- Conclude on the appropriateness of Monetary Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Bank, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Bank has complied with applicable written law, or other general or special directions issued by the governing body of the Bank;
- Whether the Bank has performed according to its powers, functions and duties; and
- Whether the resources of the Bank had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the operations of the Bank for the year under review had resulted in a net profit of Rs.137.9 billion as compared with the net profit of Rs. 48.4 billion in the preceding year, thus indicating an improvement of Rs. 89.5 billion in the financial results. Increase of foreign exchange revaluation gain by Rs.150.6 billion was the main reason attributed for this improvement in the financial results.

### 2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income items and major expenditure items of the Bank during the year under review, as compared with the preceding year are shown below.

	2018	2017	Variance	
	Rs. Bn.	Rs. Bn.	Rs. Bn.	[Favorable/(Adverse)] percentage
<b>Income from Foreign Currency Financial Assets</b>	<b>3.2</b>	<b>49.7</b>	<b>(46.5)</b>	<b>(93.6)</b>
Interest Income	25.5	22.9	2.6	11.4
Gain/(Loss) from Unrealized Price Revaluations	(18.2)	24.0	(42.2)	(175.8)
Gain/(Loss) from Realized Price Changes	(4.1)	2.8	(6.9)	(246.4)
<b>Expenses on Foreign Currency Financial Liabilities</b>	<b>5.4</b>	<b>3.0</b>	<b>(2.4)</b>	<b>(80.0)</b>
Interest Expense	5.4	3.0	(2.4)	(80.0)
Expected Credit Losses	.02	-	-	-
<b>Net Foreign Exchange Revaluation (Loss) Gain/</b>	<b>146.8</b>	<b>(3.8)</b>	<b>150.6</b>	<b>3,963.2</b>
<b>Total Net Income/(Expense) from Local Currency Financial Assets</b>	<b>6.2</b>	<b>16.1</b>	<b>(9.9)</b>	<b>(61.5)</b>
<b>Other Income</b>	<b>1.7</b>	<b>1.6</b>	<b>0.1</b>	<b>6.2</b>
<b>Operating Expenses</b>	<b>13.5</b>	<b>10.4</b>	<b>(3.1)</b>	<b>(29.8)</b>
<b>Tax</b>	<b>1.1</b>	<b>1.8</b>	<b>0.7</b>	<b>38.9</b>
<b>Profit/(Loss) for the year</b>	<b>137.9</b>	<b>48.4</b>	<b>89.5</b>	<b>184.9</b>

- (a) As per Section 41 of the Monetary Law Act, foreign exchange revaluation gain or loss shall not be included in the computation of the annual profits and losses of the Bank. Therefore, the loss for the year under review was Rs.8.9 billion (excluding net foreign exchange revaluation gain of Rs. 146.8 billion) as compared with the profit of Rs. 52.2 billion (excluding net foreign exchange revaluation loss of Rs. 3.8 billion) in the preceding year, thus indicating a deterioration of 117 per cent in the profit. Decrease of income from foreign currency financial assets by Rs.46.5 billion and decrease of net income from local currency financial assets by 9.9 billion were the main reasons attributed for this deterioration in the profit.
- (b) The distributable profit for the year under review was nil as determined in terms of Sections 38 and 41 of the Monetary Law Act and profit distribution policy of the Bank. Accordingly, no any amount could have been distributed to the Consolidated Fund. However, a sum of Rs.15 billion had been distributed to the Consolidated Fund out of the distributable profit of Rs.27.4 billion in the preceding year.
- (c) Loss from Realized Price Changes for the year under review was Rs. 4.1 billion. It was mainly included the loss amounting to Rs. 2.99 billion (USD 19.17 million) from selling Paper Gold of 77,070 troy ounces worth of USD 122.41 million during the period from 22 March 2018 to 04 April 2018. The previous maximum dealing room loss limit for foreign exchange and gold trading was USD 150,000 per month. It had been extended up to USD 22 million by the Monetary Board on 20 March 2018 for the purpose of selling above paper gold.

### 3. Operating Review

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#### 3.1 Operational Inefficiencies

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Audit Issue	Management Comment	Recommendation
<p>a. <b>The Financial Sector Consolidation Programme</b> The Bank had unveiled the Master Plan on Financial Sector Consolidation on 17 January 2014 with the objective of developing a strong Banking/ Non-Banking Financial Institutions sector with enhanced resilience to internal and external shocks in order to cater to the growing demands of the economy. Accordingly, the Consolidation Plans with 19 institutions including Banks, Financial companies and Leasing companies had been completed as at 31 March 2018 by spending Rs.74 million. However, the Consolidation Plans with 14 institutions</p>	<p>9 merger transactions involving 19 Financial Institutions (FIs) were completed. Although, 7 transactions involving 14 FIs that were initiated by acquiring fully or partly during 2014 have not been completed subsequent to a policy change of the Government. The Central Bank has introduced stringent capital requirements, both in terms of core capital and capital adequacy ratio in view of promoting consolidation among finance companies.</p>	<p>To take possible actions to complete the incomplete Consolidation Plans.</p>

had not been completed even up to the end of March 2019, though the Bank had incurred a sum of Rs.53 million in this regard. In addition to the above expenditure, the Bank had incurred an additional sum of Rs. 59 million for preparing Information Memorandum, Due Diligence, Valuation reports and other matters relating to 20 Institutions which were not included in the above Consolidation Plan.

b. **Regulating and Supervising of Finance Companies**

Finance Companies are regulated and supervised under the Finance Business Act, No.42 of 2011 by the Monetary Board of the Bank. As per the Section 12 (1) of the Finance Business Act, the Monetary Board may give directions to finance companies regarding the manner in which any aspect of the business and corporate affairs of such finance companies are to be conducted. However, it was observed that directions had not been issues with regard to cover the eight matters completely as referred to in Section 12 (1) of the Finance Business Act even up to the end of March 2019.

It was further observed that directions on the above matters especially directions on maximum interest rates charged on loans, credit facilities or other types of financial accommodation granted by such companies, directions on the payment to directors or employees of such companies and directions on the maximum percentage of the share capital in a finance company which may be held by the persons are important for regulation and supervision of finance companies.

Even though there is enabling powers to issue directions under Section 12(1) of the Finance Business Act, directions on business operations of the companies are issued as and when necessary.

However, when conducting statutory examinations/ off-site surveillance, if the Bank observes that companies are not applying proper risk management practices and do not have proper business conducts, specific company related directions are issued based on the findings on case by case basis.

To take necessary actions to issue directions which are important for regulation and supervision of finance companies.

- c. **Regulating and Supervising of Leasing Companies**
- Leasing Establishments are regulated and supervised under the Finance Leasing Act, No.56 of 2000 by the Monetary Board of the Bank. As per the Section 34 of the Finance Leasing Act, the Director of the Department of Supervision of Non-Banking Financial Institution shall have the power to issue such general directions, as he may consider necessary for the purpose ensuring that registered establishments maintain efficient standards in carrying out their duties. However, it was observed that directions had not been made with regard to cover the four matters completely as referred to in Section 34 of the Finance Leasing Act even up to the end of March 2019.
- It was further observed that directions on the above matters especially directions on maximum rate of payments to be levied by registered establishments are important for regulation of leasing companies.
- i. Even though there is enabling powers to issue directions under Section 34 of the Finance Leasing Act, directions on business operations of the companies are issued as and when necessary. However, when conducting statutory examinations/ off-site surveillance, if the Central Bank observes that companies are not applying proper risk management practices and do not have proper business conducts, specific company related directions are issued based on the findings on case by case basis.
- To take necessary actions to issue directions which are important for regulation and supervision of leasing companies.
- ii. As per the Finance Leasing Act, No.56 of 2000, duties of lessors, lessees and supplier are described from the clause number 11 to 31. As per the clause number 11, only right of the Lessee is the undisturbed and peaceful possession of the equipment provided to the lessee under a finance lease. As per the clause number 15, upon the expiration of the period of a finance lease, the lessee shall return the equipment to the lessor in the condition in which it was delivered to the lessee subject to fair wear and tear and to any modifications agreed to by the parties to the finance lease. As per the clause number 20, at any default of the lessee, the lessor has right to recover possession of the equipment provided and recover such damages as would place the lessor in a position the lessor would have been if the Department is currently proposing the amendments to the Finance Business Act in line with the current market development and international best practices, and accordingly necessary amendments to Finance Leasing Act will also be proposed in future.
- To expedite the process of amending the Finance Leasing Act.

lessee had complied with the provisions of the finance lease.

As per the provisions included in the Act, the all benefits such as possession of the equipment, recovered money and if any recovered damages whether or not the lessee has paid the due amount as scheduled under finance lease are entitled to the lessor and overall responsibilities under finance lease are assigned to the lessee. Therefore, it may be required to review the Act for identifying the necessity to do any amendments to the Act.

d. **The Licensing, Regulation and Supervision of Companies carrying on Microfinance Business**

The Licensing, Regulation and Supervision of Companies carrying on Microfinance Business are carried out by the Monetary Board of the Bank under the Microfinance Act, No 06 of 2016 with effect from 15 July 2016. Companies who are accepting deposits and providing financial services mainly to low income persons and micro enterprises (Micro Finance Business) should obtain a license under the Act. Accordingly, only three companies had obtained the licenses to carry on microfinance business from the effective date of the aforesaid Act to 30 August 2019. Companies which are not accepting deposits but providing financial services to low income persons and micro enterprises in the country do not require to obtain a license under the Act. Therefore, those companies are not regulated and supervised by the Monetary Board of the Bank under the Act.

e. **Unsound Practices of a Primary Dealer**

Through the examinations conducted by the Public Debt Department (PDD) since 2011 to 2015 on a particular Primary

In order to license, regulate and supervise entities engaged in the businesses of microfinance and money lending, it has been proposed to establish a Credit Regulatory Authority through an Act of Parliament namely Microfinance and Credit Regulatory Authority Act (the Proposed Act).

In this regard, Hon. Minister of Finance has obtained approval from the Cabinet of Ministers (the Cabinet) on 04.09.2019 to establish the “Credit Regulatory Authority” through an Act of Parliament, administered by the Ministry of Finance, repealing the existing Microfinance Act.

It is expected that companies which are not accepting deposits but are providing financial accommodations to low income persons and micro enterprises would be included within the regulatory purview of the Proposed Act.

Legal actions have been instituted against the former Board of directors (BOD) of the PD. Regulatory actions have been

To take necessary actions to regulate and supervise the micro finance companies which are not coming under the purview of the existing Microfinance Act.

To take possible actions to recover the loss to the Investors and take

Dealer Company (PD), many violations of laws and regulations/directions which are mandatory to be followed by any PD had been observed. Major violations of the said PD observed by PDD are as follows.

- Most of the reverse repos (lending by the said PD) are with the holding company of the said PD.
- Failed to obtain adequate securities against reverse repo lending.
- Non availability of a contingency funding plan while maintaining high negative overnight mismatch.
- No signed Master Repurchase Agreements with customers.
- Inadequate securities provided for repo borrowing from customers

Violations such as inadequate securities provided for repo borrowing from customers had been repeated due to not taking serious actions against the said PD by the Bank.

Finally, the Bank had entrusted the management of the said PD to a Government Bank on 04 January 2016. Unrecoverable amount of investment with accrued interest to the Customers due to Security shortage for repo borrowing was Rs.7.2 billion as at 04 January 2016. Out of total irrecoverable amount, Rs. 2.1 billion was appeared to be irrecoverable to the four departments of the Bank which handle internal funds.

f. Limitations of Lanka Settle System which is facilitated for the fund settlements, scripless securities settlement and recording the ownership of the Government securities transactions observed during the audit are as follows.

- Securities held in CSL security account (Outright Purchase) can be removed by

taken against the former BOD and Senior Management of PD by CBSL.

Following improvements were taken in regulation and supervision of PDs.

- Supervision of PDs has been assigned to the Department of Supervision of Non-Bank Financial Institutions.
- The laws and regulations relating to supervision of PDs are being reviewed to strengthen the regulatory framework of PDs.
- Introduced an SMS/ Email Alert Services from 25.03.2019 to address possible misuse of Government Securities belonging to investors.

necessary actions to prevent such incidents in future.

PDD has introduced a real-time notification of movement of scripless government securities from 25.03.2019 onwards. Apart from the said facility, web based access to their securities account is also made available to the customers in order to view the activities related to their securities

To take necessary actions to mitigate violations that could be made by any PD for the purpose of protection the Investors.



- a primary dealer without having the consent of the customer (No any restriction in Lanka Secure System is introduced).
- Difficulty in identifying the owner of the securities which are recorded under CRP security account.
  - Difficulty in identifying the beneficiary of coupon proceeds and maturity proceeds paid by the Bank on the securities recorded under CRP security account.
  - Not being recorded relevant information such as expected amount, return date and return price of Repo transactions between the primary dealer and their customers in Lanka Secure System.
  - No any restriction in Lanka Secure System to avoid removing allocated securities without substituting another security for Repo transactions.
- g. Section 2.2 of Lanka Settle System Rules Version 2.1 (2013) which was issued for the operations of the Lanka Settle System by the Bank states that fines can be imposed against Primary Dealers when a Primary dealer violates rules and regulations that they are required to follow. However, fines had not been imposed against any Primary Dealer as the Bank was unable to enforce the System Rules.
- The Legal and Compliance Department (LCD) has raised concerns over the legality of imposing penalties through subordinate legislation (i.e. Regulation and Direction issued based on the Acts under reference) in the absence of explicit empowerment to impose such penalties directly through the said Acts. In this regard, the Bank will consider alternative arrangements to address the said matter.
- To take necessary actions to address the said matter.
- h. The Monetary Board instructed the PDD in September 2015 to develop an appropriate framework to impose fines against Primary Dealers who act against the interest of customer. However, such appropriate framework had not been developed even up to the end of September 2019.
- As per the concerns raised by the Legal and Compliance Department, the necessary acts needs to be amended to incorporate the penal provisions in order to make them more resilient in the legal arena. In this regard, the Bank is contemplating on several approaches at present to address the said matter.
- To develop appropriate framework to address the said matter.
- i. The New Foreign Exchange Act (FEA) No.12 of 2017 was implemented with
- The procedures to be followed to conclude an investigation is
- When conducting investigations under
- account during any time (24x7). PDD is in the process of issuing a Circular instructing to all the Participants in the LankaSettle system to insert settlement value, price and yield for the scripless government securities transactions in the Scripless Securities Settlement System.

effect from 20 November 2017 and there were 223 investigations initiated under repealed Exchange Control Act No.24 of 1953 and pending on 19 November 2017, the day immediately prior to the appointed date of FEA. In terms of Section 30(2)b of the FEA, all investigations and inquiries instituted under the repealed Act shall be concluded under that Act within a period of six months from the appointed date (on or before 20 May 2018). It was noted that Foreign Exchange Department (FED) was able to conclude only 66 investigations out of above 223 investigations as at 20 May 2018. Information on the year of commencement of the other 157 outstanding investigations is as follows.

<b>Year of commencement</b>	<b>Total</b>
2008	01
2009	03
2010	01
2011	02
2012	06
2013	15
2014	24
2015	30
2016	43
2017	<u>32</u>
<b>Total</b>	<u><b>157</b></u>

As a result of these investigations not concluded within a period of six months,

- Parties who violated the repealed act were released without further investigations, inquiries, actions and penalties.
- There would be a reputational damage if serious cases specifically where there had been unlawful leakage of foreign

considerably lengthy as it is required to give the persons a reasonable opportunity of being heard to exercise the principles of natural justice.

At the time of submitting the views on the draft bill, the insufficient time to conclude investigations was informed and requested to extent the 6 months period given in the draft bill. However, such request had not been favorably considered.

After enacting FEA, Monetary Board recommended to the Minister in charge of the Bank to make appropriate amendments to the FEA to enable DFE to continue with the pending investigations initiated under the repealed Exchange Control Act. Accordingly, the Cabinet Paper was submitted by the Minister of Finance on such amendments. However, the paper was differed for further study on 06.05.2018 by the Cabinet and finally the required amendments were not considered.

new FEA, need to give priority to conduct investigations on the Authorized

Dealers whose investigations were not concluded.

exchange out of the country are allowed to lapse.

- j. As per the Section 4 of the Registered Stock and Securities Ordinance No. 07 of 1937 as amended, the Minister in charge of the subject of Finance shall, in respect of each loan (issuance of treasury bonds) to be raised under this Ordinance, specify by Order published in the Gazette. However, such kind of order for the year 2018 and 2019 had not been published in the Gazette. Further, order for the year 2008 to 2017 had been published in the Gazette at the following year of the each respective year based on the actual results of the issuance of Treasury Bonds in contrary to the Section 4 of the Ordinance.
- The requirement to publish Gazette notification for issuance of T-bonds as per the Registered Stock and Securities Ordinance (RSSO) has been observed and acknowledged to be impractical and outmoded by the Presidential Commission of Inquiries to investigate inquire and report on the issuance of Treasury bonds. Therefore, the prevailing practice will be continued until necessary amendments are made to RSSO.
- To comply with the said provision of the Ordinance or to take necessary actions to amend the Ordinance.
- k. The Asian Clearing Union (ACU) was a mechanism to settle, on a multilateral basis of payments for intra-regional transactions among participating Central Banks of Asia and Pacific region. Net settlement position of each ACU participant is calculated based on the daily outstanding balance held over the two months period and settlement will take place within four working days of the following month. Interest rate was spread between 1.45 percent and 2.28 percent during the year under review (2017 – 0.63 percent and 1.28 percent). All credits to accounts of the Bank relating to the settlement under ACU mechanism should be made on the respective value dates by the licensed commercial banks in Sri Lanka and the Bank invests holding amounts to be settled at the end of the two months. Accordingly, the Bank had paid a sum of USD 5.97 million (Approximately Rs.1,091.4 million) as interest expense to ACU during the year under review. However, investment income earned using holding amounts during the year under review was USD 3.22 million (Approximately Rs. 588.6 million.) Therefore, the Bank had incurred an excess expense amounting to USD 2.75
- As interest rates of all major investee currencies remained low during the reference period and the applicable interest rates for ACU settlements were at high levels, additional expenses had to be incurred on the ACU settlement balances.
- To take possible actions to reduce the additional interest expense on the ACU.
- However, these balances form a part of country reserves until settlement, and hence, the country was benefitted due to higher reserve holdings during the reference period.

million (Approximately Rs. 502.8 million.) for the year under review under ACU mechanism.

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| 1. | The Cabinet of Ministers at the meeting held on 27 June 2012 had vested the authority to the Monetary Board for taking final decision with regard to mint coins by either calling International Bids or to place orders with existing suppliers. However, the Bank had not specified situations where orders can be placed with existing suppliers. | Currency and Research Department (CRD) has requested views of National Procurement Commission (NPC) on the matter pertaining to applicability of the Cabinet Decision on the Cabinet Paper No. 12/0863/504/073 and authority limit of the CBSL for procurement of coin minting and guidance to proceed with future procurements of coin minting. Accordingly, CRD will make necessary actions based on the responses provided by the NPC. | To take necessary actions to address the said matter. |
| m. | When increasing the quota assets held by Sri Lanka in International Monetary Fund (IMF), 75 percent is paid by issuing promissory notes while recording it as quota liability. The Bank had not maintained the relevant corresponding documents relating to the Quota liability.  | Finance Department (FD) currently, does not have sufficient information regarding how the quota liability has been built up prior to 1999. Furthermore, FD maintains some promissory notes issued in favor of IMF in safe custody, but no adequate information is available to match them with the quota asset.   | To take necessary actions to address the said matter. |
- FD started to obtain the necessary information regarding this quota increases from IMF and are still in progress.

### 3.2 Transactions of Contentious Nature

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Audit Issue	Management Comment	Recommendation
<p>a. The Bank had paid Pay As You Earn tax (PAYE) and tax on tax aggregating Rs. 499 million and Rs. 361 million for the year under review and for the preceding year respectively from its own funds instead of being recovered from the respective employees in terms of Public Enterprises Circular No.03/2016 of 29 April 2016.</p> <p>It was further observed that the provision (the Bank shall meet the income tax liability of employees on their income from employment in the Bank) which was included in the Collective Agreement signed between the Monetary Board of the Bank and all recognized Trade Unions operated in the Bank for period from 2015 to 2017 was not included in the Collective Agreement signed on 20 September 2018 with effect from 1 January 2018 to 31 December 2020. However, PAYE tax was deducted from the salaries of the employees since April 2019.</p>	<p>Considering the recommendations made by the COPE, the Monetary Board has granted approval to deduct the PAYE tax liability of its employees from their salaries with effect from 01.04.2019.</p>	<p>To take necessary actions to prevent the future non compliances similar to this.</p>
<p>b. According to Section 117 of Monetary Law Act, “ the Bank should not engaged in trade or otherwise have a direct interest in any commercial, industrial or other undertaking except such interest as it may in any way acquire in the course of the satisfaction of any of it’s claims”. In contrary to this provision, several buildings owned by the Bank had been rented out for outside parties without being utilized for the intended purposes and the Bank had earned a rent income of Rs. 402 million during the year under review.</p>	<p>As the Monetary Board of the Bank has decided to terminate the Lease/Rent agreements pertaining to the above properties by allowing a reasonable time period.</p>	<p>To comply with the said provision of the Act.</p>
<p>c. The White Aways Building was purchased for a sum of Rs. 100 million on 01 September 2014 and it was renovated incurring a sum of Rs.325.42 million up to 31 December 2016. A revaluation loss of Rs.232.12 million was incurred as at that date after revaluation of the said building at Rs.187 million as at 31 December 2016. Accordingly, value of the building had declined significantly within a short period of 28 months.</p>	<p>The Bank will take the necessary measures to perform another valuation of this building, utilizing the services of the Government Valuer.</p>	<p>To take necessary actions to find reasons for declining the value of the building.</p>

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| d. | Construction of the Kilinochchi Building Complex was completed on 31 May 2016 capitalizing a sum of Rs. 167.93 million and it was improved incurring a sum of Rs.100.84 million up to 31 December 2016. As revaluation value of the Kilinochchi Building Complex was Rs.169.5 million as at 31 December 2016, revaluation loss was Rs.96.87 million. Therefore, value of the newly constructed building had declined significantly within a short period of 7 months. | The Bank will take the necessary measures to perform another valuation of this building, utilizing the services of the Government Valuer. | To take necessary actions to find reasons for declining the value of the building. |
| e. | Construction of the Sovereign Study Centre was completed on 30 September 2016 and capitalized a sum of Rs. 212.2 million. As revaluation value of the Sovereign Study Centre was Rs.170 million as at 31 December 2016, A revaluation loss of Rs.40.79 million was incurred. Therefore, value of the newly constructed building had declined significantly within a short period of 3 months.   | The Bank will take the necessary measures to perform another valuation of this building, utilizing the services of the Government Valuer. | To take necessary actions to find reasons for declining the value of the building. |

### 3.3 Underutilization of Funds

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<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The Bank had not performed any transaction from the funds of Rs. 36.8 million (EURO 175,829) available in Nostro Account with Banca Nazionale Del Lavarò for more than 15 years.	The said account is linked with the commodity aid granted by the Italian government to the Sri Lankan government and managed by the Italian Ministry of Foreign Affairs. The Department of External Resources informed that neither information nor any documents related to this account are available with them. Accordingly, this account cannot be closed.	To take necessary actions to address the said matter.

#### 4. Achievement of Sustainable Development Goals

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<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>Every public institution should act in compliance with the United Nations Sustainable Development Agenda for the year 2030. However, the Bank had not taken actions to identify the sustainable development goals under the purview of Bank's scope and targets relating to the activities thereof, along with the milestones in respect of achieving those targets, and the indicators for evaluating the achievement of such targets.</p>	<p>The Bank neither has the legal mandate nor instruments available to help achieve Sustainable Development Goals (SDGs) directly. The Bank funds cannot be used for the achievement of SDGs. The government may need to allocate funds from its annual budget for implement programmes.</p> <p>However, in recognition of the importance of formulating a national framework to achieve the SDGs, the Central Bank, in its advisory capacity to the government, included a comprehensive box article on SDGs in its Annual Report submitted to the Hon. Minister of Finance for the year 2015. In addition, several policy notes on SDGs and financing requirements to achieve such goals have been submitted to the government from time to time.</p>	<p>To take necessary actions to ensure whether the Bank is in compliance with the said Agenda.</p>