

Pradeshiya Sanwardhana Bank – 2018

1.1. Opinion

The audit of the financial statements of the Pradeshiya Sanwardhana Bank (“Bank”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the income statement, statement of 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 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Emphasis of Matter

Without qualifying my opinion, I draw your attention to the note No.22.2 to the financial statements which mentioned that the Bank has acquired 100 per cent equity stake in Lankaputhra Development Bank in line with Government Budget proposal of year 2016 thereby proposed to Lankaputhra Development Bank to be merged with Pradeshiya Sanwardhana Bank. Pradeshiya Sanwardhana Bank acquired the entire shareholding of Lankaputhra Development Bank for a purchase consideration of Rs.4.176 billion and the purchase consideration was settled by way of new share issue in favour of General Treasury with effect from 31 December 2018. However, share cancellation or new share issue had not been taken place in the books of Lankaputhra Development Bank and total shareholder funds as at 31 December 2018 was Rs.5.386 billion. The above investment does not qualify to be a subsidiary of a Pradeshiya Sanwardhana Bank do not have the controlling power and its remained with the Ministry of Finance as confirmed by the Director General of Department of Public Enterprises.

1.2. Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). 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.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, my description of how my audit addressed the matter is provided in that context.

Key audit matter

Impairment allowance for loans and advances including Bank's transition to SLFRS 9:

My audit considered impairment allowance for loans and receivables from other customers as a key audit matter. The materiality of the reported amounts for loans and advances (and impairment allowance thereof), the subjectivity associated with management's impairment estimation and transition to Sri Lanka Financial Reporting Standard 9: Financial Instruments (SLFRS 9) underpinned my basis for considering it as a Key Audit Matter.

As at 31 December 2018, 75 percentage of its total assets of the Bank consisted of loans and receivables from other customers amounting to Rs.133,433 million (Note 20), net of impairment allowance of Rs.1,410 million (Note 10). The impact of transition to SLFRS 9 on the Bank's Financial Statements has been quantified and presented in Note 4 of the Financial Statements.

The estimation of impairment allowance for loans and receivables from other customers involved complex manual calculations.

Significant estimates and assumptions used by the management in such calculations, its sensitivities and the basis for impairment allowance are disclosed in Note 3.1.1.7

How my audit addressed the key audit matter

To assess the reasonableness of the impairment allowance, my audit procedures (among others) were designed to obtain sufficient and appropriate audit evidence, included the following:

- I evaluated design, implementation and operating effectiveness of controls over estimation of impairment of loans and receivables from other customers, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management.
- I test-checked the underlying calculations and data.
- In addition to the above, following focused procedures were performed:

For loans and receivables from other customers - individually assessed for impairment

- I assessed the main criteria used by the management for determining whether an impairment event had occurred;
- Where impairment indicators existed, I assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. I also compared the actual recoveries against previously estimated amounts of future recoveries.
- Where loans and advances granted to customers with a higher risk of credit loss, I assessed the main criteria used by the management for determining whether an impairment event had occurred and the reasonableness of management estimation of such additional impairment.

For loans and receivables from other customers - collectively assessed for impairment

- I tested the completeness, relevance and accuracy of the underlying information in loans and receivables used in the impairment calculation by agreeing details to the Bank's source documents and information in IT systems as well as re-performing the calculation of impairment allowance.
- I also considered reasonableness of macro-economic and other factors used by management in their judgmental overlays for various types of loan portfolios, by comparing them with publicly available data and information sources.
- I assessed the adequacy of the related financial statement disclosures as set out in Note 20.
- I also assessed the adequacy of the Bank's disclosure on the impact of the initial adoption of SLFRS 9 as set out in Note 4. This included testing of the quantitative impact of transition.

1.3. Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine 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, management 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 Financial Statements

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 Sri Lanka Auditing Standards 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 Sri Lanka Auditing Standards, 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 the management.
- Conclude on the appropriateness of the management'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.

1.5. Financial Statements

1.5.1. Unreconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
A difference of Rs. 4,956,106 had been observed between the general ledger balance and the schedule of swashakthi grant not received as at 31 December 2018.	Balance indicates the difference of refinance received and, provision made by the Branches and will attend to solve this matter with the consultation of Bank's Credit Department.	Take necessary actions to reconcile the difference.

1.6. Accounts Receivable and Payable

1.6.1. Receivables

Audit Issue	Management Comment	Recommendation
(i) Interest on fixed deposits under "Athata Poliya" scheme is paid to the customer at the opening of deposit. Interest paid is debited to the pre-paid interest income account and monthly interest is automatically calculated by the system.		Setting off of relevant balances in the pre paid interest income account and interest income payable account is required when preparing financial statements.
(a) However, interest prepayment amounting to Rs 2,725,087 in relevant to the year 2018 had not been transferred to interest payable account and therefore, asset and liability had been overstated by Rs. 2,725,087 as at 31 December 2018.	Instructions have been given to settle interest prepayments balances immediately.	

- (b) Though the “Athata Poliya” deposits prepaid interest amount was Rs.5,271,967 for newly opened accounts valued at Rs. 49,644,312 in 2018, pre paid deposit interest account balance was Rs. 10,422,864 as at 31 December 2018 and a difference amounting to Rs. 5,150,897 was observed.
- The auto renewal has been occurred under “Athata poli” product without paying interest at the renewal by applying Athata poli interest rate. However, “Athata poli” circular instruction has to be amended accordingly.

1.6.2. Payables

Audit Issue	Management Comment	Recommendation
(i) Refinance payable balances amounting to Rs.112.2 million have been remained constant as compared with previous year without taking actions to clear those balances.	Most of these balances are recorded at the Data Migration process from MBwin System to Core Banking System and instructions have been sent to clear long outstanding balances. And the above matter was discussed at Assets and Liability Committee Meeting.	Take necessary actions to close the refinance schemes which are not in operation after settling payable balances.
(ii) Though the interest had continuously been accrued on 02 funds obtained from the Mahaweli Authority since 2002, the Bank had not taken steps to pay any interest up to 31 December 2018. The total accrued interest as at 31 December 2018 was Rs. 40,194,150 and out of that Rs.36,764,636 was as at 31 December 2017. As per the Section no.04 of the agreement, bank had an opportunity to earn 12 per cent interest income per annum by lending loans to the farmers’ organizations.	Mahaweli Authority had agreed to implement two loan schemes. However, Mahaweli Authority had later decided to suspend these schemes and requested to return allocated funds. Therefore, approval from Asset and Liability Committee is sought in order to proceed in this regard.	Take necessary actions to pay accrued interest on refinance loan balances to relevant institutions.

Any evidence of the utilization of above funds as agreed with Mahaweli Authority was not available to the audit.

- (iii) The refinance loan scheme on “UNDP- RUEDA Guarantee Fund” had been started in 2009 with a fund of Rs.34,124,900 and above scheme was not in operation since December 2013. However, actions had not been taken by the bank to return above funds which may limit future benefits towards the country. Further, interest had been accrued monthly at the prevailing interest rate on compounding interest method and therefore, the bank has a liability to pay capital of Rs. 11,003,743 and interest payable amount was Rs.23,417,695 as at 31 December 2018.
- (iv) Details of composition of the Credit Guarantee Indemnity balance, credit guarantee amounts received and paid to the Central Bank and repayments recovered amounts was not available. A sum of Rs.25,371,311 had been paid to the central bank from 2015 to March 2019 as repayments of CG 1 & CG 2 due to non-performance of recoveries.
- A decision was taken not to refund funds to UNDP at the meeting held with UNDP and RUEDA. However, written evidence was not available. Therefore, Bank had not returned the fund or interest to UNDP.
- Matter was discussed at Executive Credit Committee and the situation is unavoidable.
- Take necessary actions to settle the balance without further delay or come to an agreement with the related parties.
- Take necessary steps to prepare appropriate reconciliations and adhere with relevant guidelines issued by the Central Bank.

- (v) The payable Nation Building Tax amounting to Rs. 9,362,691 for the year of 2016 had not been paid until the date of audit. All relevant taxes have been paid as per guide lines of Department of Inland Revenue and appeals have been filed against some of tax assessments. Accordingly Bank is in the position to clear all relevant tax payables. Take necessary steps to remit taxes without any delay to Department of Inland Revenue in accordance with appropriate rates.

1.7. Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(i) Banking Act, Direction No.01 of 2016	The bank has maintained minimum total Capital Adequacy Ratio as at 31 December 2018. However, as at the end of first, second and third quarters, non compliance with the minimum total Capital Adequacy Ratio were observed.	Several steps have been taken by the Bank to maintain the Capital adequacy requirements according to the BASEL III regulations.	Ensure strict compliance with regulatory requirements.
(ii) Procurement Guideline reference 2.1.1 and Public Finance circular PF/429 (i)	Bank has used their own developed procurement manual without obtaining approvals from Director General of Public Finance.	As per the clause 2.1.1 of the Government Procurement Guideline 2006, request had been made by the bank to the National Procurement Commission through the Secretary, Ministry of Public Enterprise Development on 27 April 2016. The bank has been coming under the Ministry of Public Enterprise Development up to 27 October 2018 and approval has been sought from Secretary General of National Procurement Commission by the Secretary of Ministry of Public Enterprise Development.	Take necessary steps to adhere with the cited direction.

1.8. Maturity Analysis

Audit Issue	Management Comment	Recommendation
(i) Analysis of financial assets and financial liabilities by remaining contractual maturities as at 31 December 2018 revealed that, total financial liabilities 3-12 months and over 5 years were far in excess over total financial assets and the liquidity gaps were Rs.16,427,792,596 and Rs.10,272,877,666 respectively.	Maturity analysis was prepared with the total assets and liabilities of the bank. However, investment portfolio of the bank consists of short term maturities for liquidity purpose.	Take necessary actions to match contractual maturities of financial assets and financial liabilities to mitigate the risk of the bank.

1.9. Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
(i) Contrary to the section 114 of Inland Revenue Act, No. 10 of 2006 and section 83 of Inland Revenue Act, No. 24 of 2017 (effective from 01.04.2018), Public Finance Circular No. PF/PE/06 of 31 January 2000 and Public Enterprises Circular No. PED 03/2016 of 29 April 2016, the Bank had paid Pay As You Earn (PAYE) tax amounting to Rs.191, 479,007 for the year 2018 out of its own funds on behalf of its employees instead of being deducted from the salaries of the respective employees. Further, Attorney General had expressed his opinion to deduct PAYE tax from the	PAYE tax liability of the employees was paid by the Bank under the provision of RDB Act, following the same practice of other state owned banks. Further, this is not prohibited practice by the Inland Revenue Act.	Take necessary steps to adhere with the cited direction.

employees' earnings in compliance with the PED Circular No.PED/03/2016.

- (ii) As per the Economic Service Charge Act, No.13 of 2006 and amendments thereto, ESC of the bank was Rs.130,353,053. However, bank has paid Rs.129,248,353 only as economic service charge for the year 2018 and therefore, ESC expense had been understated by Rs. 1,104,700.
- Economic Service Charge is paid by the Bank considering tax assessment year ended at 31 March of every year and tax credits have also been obtained for the above year regarding ESC.
- Take necessary steps to adhere with the cited direction and ensure to prepare financial statements as at 31 December of year end correctly.
- (iii) Profit After Tax of the Bank for the year 2018 was Rs. 1,073,586,361 and therefore, Crop Insurance levy for the year based on above profit as per the Section 14 of Finance Act No.12 of 2013 was Rs.10,735,864. With the prior year adjustment amounting to Rs.2,047,966 Crop Insurance Levy expense should be Rs.12,783,830. However, as per the General Ledger Crop Insurance Levy expense was Rs.10,332,117 and therefore overstatement of profit by Rs.2,451,713 and understatement of liabilities by the same amount was observed.
- Agreed. According to Government notification no 1824/23 published on 23/08/2013, it says "if any additional liability arising after finalize the annual accounts should be paid before thirtieth day of September in the year of assessment". Therefore, we expect to pay that additional liability on or before 30 September.
- Take necessary steps to adhere with the cited direction and ensure to prepare financial statements as at 31 December of year end correctly.

(iv) Vat on non financial services

(a) Contrary to the Value Added Tax Act No.14 of 2002 and amendments there to, when calculating Vat on non-financial services for the year 2018, Vat on suppliers amounting to Rs. 750,010 for the period of October 2018 to December 2018 had not been considered for Vat credit.

Agreed.

It was considered when making payment in February 2019.

Take necessary steps to adhere with the cited direction and ensure to prepare financial statements as at 31 December of year end correctly.

(b) It was observed that the debit value of Rs.29,686,822 had been remained in the vat payable account in the General Ledger without clearing since 2012. Due to that liability of the year had been understated by the same amount.

It was decided to write off this balance within 8 months starting from May 2019 at ALCO meeting held on 30 April 2019.

(v) VAT on financial services calculation for 2018.

Contrary to the Value Added Tax Act No.14 of 2002 and amendments there to;

(a) Travelling and subsistence amounting to Rs.55,768,289 had not been considered for VAT calculation. Due to that VAT on financial services for the year had been understated by Rs.6,860,215.

Travelling and subsistence amount represents the reimbursement of travelling cost of employees for official travelling, which is not considered as personnel cost.

Since travelling and subsistence was not based on the reimbursement of actual bill, it needs to be considered for financial VAT computation.

(b) The payable VAT amount of Rs. 7,295,193 since 2017 had not been paid until the date of audit.

Necessary entries are passed after checking all entries passed to VAT Payable

Take necessary actions to pay

	Account.	taxes to Department of Inland Revenue without any delay.
(vi) Income tax 2018.		
Contrary to Inland Revenue Act No.10 of 2006 and amendments there to and Inland Revenue Act No.24 of 2017, vehicles purchased during the period from 2014 to 2018 amounting to Rs.150,208,431 had been considered for capital allowances. Capital allowances cannot be claimed for the vehicles used for travelling purposes. Therefore, claiming of capital allowances for vehicles amounting to Rs. 136,920,626 was disallowed.	These vehicles have been used for operational activities of the bank such as loan recovery and deposits mobilization and therefore, capital allowances have been claimed in the income tax calculation.	Take necessary steps to adhere with the cited direction.

2. Financial Review

2.1. Financial Result

The operating result of the year under review amounted to a profit of Rs.2,103,081,891 and the corresponding profit in the preceding year amounted to Rs.2,190,725,745. Therefore a deterioration amounting to Rs. 87,643,854 or 4 per cent of the financial result was observed. The reasons for the deterioration are higher interest cost, higher personnel expenses and impact on application of Sri Lanka Financial Reporting Standard 09.

2.2. Trend Analysis of major Income and Expenditure items

Interest income on loans and advances have been increased by Rs.3,474 million or 20 per cent as compared with the previous year. The major reason for the above was increase of gross loans and advances by Rs.7,445 million or 6 per cent as compared with previous year. Interest income on deposits had been increased by Rs.411 million or 492 per cent due to increase of interest rates and investment period. Interest expenses on deposits and personnel expenses have been increased by Rs.1,689 million or 16 per cent and Rs.898 million or 18 per cent respectively. Impairment charges have been increased by Rs.966 million or 218 per cent due to the impact of Sri Lanka Financial Reporting Standard 09.

2.3. Ratio Analysis

Following observations are made on some important accounting ratios of the Bank for the year under review as compared with sector ratios.

- (i) High net interest margin of 6.88 per cent was observed for the year 2018 as compared with the Licensed Specialized Bank ratio of 3.25. High interest income from average assets of 14.36 per cent and interest expense from average assets of 7.49 per cent for the year 2018 was observed as compared with average Licensed Bank Ratio of 11.52 per cent and 8.27 per cent respectively. Charging higher interest rates from customers and reliance on high cost fixed deposits were the major reasons for the above.
- (ii) The staff cost to operating expenses of the year 2018 was 75.01 per cent as compared with the sector ratio of 54.2 per cent.
- (iii) Adverse trend in assets quality was observed with the significant increase in NPL ratio up to 5.40 per cent as at 31 December 2018 from 3.27 per cent as at the previous year end due to poor credit evaluations and ineffective & unsustainable recovery efforts. Further, as at 31 May 2019, NPL of the bank has been increased up to 9.87 per cent.
- (iv) Return on Assets and Return on Equity had been decreased up to 0.62 per cent and 7.30 per cent respectively as at 31 December 2018. Impairment charges due to high NPL ratio and higher staff cost resulted low profitability level and amalgamation of Lankpauthra Development Bank contributed towards increase in the equity.

3. Operational Review

3.1. Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
(i) Kuruwita branch building had been handed over to the Bank by the Contractor with a 9 months delay and therefore, branch had been maintained on a rented building at a cost of Rs.1,248,000 for the year 2018 and rent advance payment amounting to Rs. 1,680,000 on 19 December 2017 was an uneconomic transaction for the year 2018. Further, any clause regarding the recovery of loss on delay in handing over the building had not been included in the lease agreement.	The delay was due to drain construction in front of building by the Road Development Authority and flood affected to the area.	Take necessary steps to utilize funds of the bank in an efficient manner.

<p>(ii) Board approval had been granted for the construction of branch in Imaduwa and it had not been constructed until the year end of 2018. However, advance of Rs.4,726,697 (with taxes) had been paid to Urban Development Authority.</p> <p>Further, Rs. 126,921 had been paid as legal fees and stamp duty on 28 April 2017 to UDA. However, lease agreement had not been available up to the date of audit.</p>	<p>Actions are being taken to resolve the concern.</p>	<p>Take necessary steps to utilize funds of the bank in an efficient manner.</p>
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3.2. Identified Losses

Audit Issue	Management Comment	Recommendation
<p>Capital loss of Rs.7,580,500 had been done by an employee while performing the duties as pawning officer of Gandara and Devinuwara branches. Service of accused employee had been terminated with effect from 12 August 2013 as per the disciplinary order no.RDB/SP/INV/ALS/GM/13/30 dated 03 August 2015. However, action had not been mentioned in the above order regarding the recovery of loss incurred to the Bank.</p>	<p>The accused employee was dismissed and retained her gratuity and the bank balance in order to cover the losses. Action has been taken to recover capital loss of Rs.4,500,000 from insurance claim, Rs. 797,282 from retained gratuity, retained bonus of Rs.1,570,000 related employees. The matter is undertaken by the CID and file proceeding against the accused employee and the balance may be recovered from the accused employee.</p>	<p>Actions had not been mentioned in the related disciplinary order of accused employee regarding the recovery of loss incurred to the Bank and therefore, take necessary steps to recover the loss incurred to the bank.</p>

3.3. Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(i) Bank had collected deposits amounting to Rs.3billion (approximately) by granting a special interest rate of 13.3 per cent per annum for the accounts opened on 16, 17 and 18 April 2019 with the trend of decreasing market interest rates.	Maintaining a healthy liquidity ratio is vital and the bank was maintaining the liquidity ratio marginally above the statutory requirements and it was fluctuating drastically during the past. Further, Bank was always keeping a small margin above the market rates for fixed deposits in order to keep the liquidity intact. Assets and Liability Committee (ALCO) decided to have a deposit promotion by giving a slight increase in the rate for the Sinhala and Tamil New Year that is 16 April 2019. And it was extended to the next two working days of that week due to the requests made by Regional General Managers (RGMs) to attract more deposits which are mainly one year maturity and will have a positive contribution to the deposit base of the Bank.	Take necessary steps to utilize bank funds in an efficient manner by analyzing the market trend and actions taken by the regulatory authority.
(ii) Fixed deposits of the bank comprised of 63.6 per cent from the total customer deposits as at 31 December 2018 and the interest expense on fixed deposits comprised of more than 80 per cent from the interest expense on customer deposits. Therefore, taking actions on attracting more fixed deposits will further increase the reliance on high cost fixed deposits.		

3.4. Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(i) The bank had maintained fixed deposits amounting to Rs.95,664,238 manually without entering it to the core banking system as at 31 December 2018.	This represents the deposits certificates issued by former regional banks and it was difficult to enter into the CBS System due to insufficient details. Further, there are no any transactions for these deposit certificates, except closing the deposits.	Take necessary steps to maintain all transactions through the system.

3.5. Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
(i) The Chairman served for the period from 01 May 2018 to 31 August 2018,	Bank has sent a letter on 05 July 2018, seeking approval from the Secretary, Ministry of Public Enterprise Development and Kandy City Development regarding this matter.	Since any approval letter has not been received take necessary steps to adhere with the board decision.
(a) Entitled for 680 litres (170X4) of fuel for the four months period and has used 2,038.10 litres. Therefore, 1358 litres at a cost of Rs.183,250 (approximately) had been used by him contrary to PED circulars.		
(b) Provided an apartment at a monthly rent of Rs.73,250 for 3 months from July to September 2018 and due to resignation one month rent in lieu of one month notice had been paid by the bank.		
(c) Board had informed to obtain approval from the Secretary, Ministry of Public Enterprise and Kandy City Development for the payment of allowances and other facilities provided to chairman. However, such approval was not available to the audit.		
(ii) Saviya loan scheme was implemented in North Western Province with a fund of Rs.500 million as per the Cabinet decision on 25 October 2016. However, bank had signed an additional agreement with the Wayamba	Agreement has been entered in accordance with instructions given by the Minister of respective Ministry between Ministry and respective societies. Cabinet decision has not been informed to us yet in this regard but compliance of officers of Minister has been	Take necessary steps to implement loan schemes in accordance with cabinet decisions and board decisions.

Development Co-operative society on 10 March 2017 contrary to the Cabinet decision to implement the above scheme with government bank. Further, by the above agreement it was agreed to remit 5 out of 7 per cent interest income and bank had paid Rs.22,892,254 to the Wayamba Development Co-operative society up to 31 March 2019 contrary to the letter dated 25 November 2016 of Director General of Department of Development Finance.

given to us for two agreements. In addition, the Minister who signed the agreement with us advised to grant 5 percent interest rate out of 7 per cent to Co-operative.

3.6. Delays in Projects or Capital Work

Audit Issue	Management Comment	Recommendation
<p>(i) Agreement with ABC Computers Private Limited for Supply, installation and maintenance of an inventory control system for the bank had been signed on 24 November 2016 for the value of Rs. 1,550,000. According to the agreement condition no. 04 and time plan of the project, all stages should be completed within 81 working days and as such above project should be completed on or before 16 December 2016. Though three advance payments amounting to Rs. 930,000 had been paid, it had not been completed until the date of audit on 06 March 2019.</p>	<p>As per the agreement and the agreed payment terms bank made payment up to UAT (User Acceptance Testing) sign off and system is currently under live run. The balance payment has been suspended as the support of the company is not up to the expectation for troubleshooting. Still the payment payable on live run not yet done. Live run started and no delay as the bank used this system for the purpose. However, the company has to complete and handover as per the agreed technical standards which will be finalized within the agreed timeline.</p>	<p>The agreement had been signed for the provision of software development of the Bank's inventory control system. However, bank uses system under live run regarding the computer items only. Therefore, it is necessary to implement projects in an efficient manner as per the signed agreement without any delay.</p>

- (ii) Agreement with The originally agreed Since the project was not
 Microimage Private timeline is not realistic since completed as agreed, take
 Limited to software it takes time for necessary actions to complete
 development agreement for customization to meet the the project without any delay.
 Human Resources requirements of RDB. As a
 Management System for the result bank agreed with the
 bank had been signed on 17 vendor time to time on
 December 2015 for the delivery of modules
 value of considering the resource
 Rs.11,250,000. According support provided from the
 to the agreement condition bank and the vendor. At
 no. 10.3 and time plan of present 5 modules are under
 the project, entire project live run and other 4 modules
 should be completed by are ready for live within the
 30 November 2016. Though agreed timeline. Action
 the eleven advance already taken to assign
 payments amounting to responsibilities among HR
 Rs. 6,208,672 and 55.19 per staff to undertake the work of
 cent of the total project the modules already going on
 value had been paid but it live run in order to speed up
 had not been completed the work removing the
 until the date of audit on 06 workload given to project
 March 2019 and delay in team. Also action has been
 27 months were observed. taken to monitor the progress
 constantly in troubleshooting.

3.7. Procurement Management

Audit Issue	Management Comment	Recommendation
<p>Lowest bidder had been recommended for the procurement of DGM/HR/RDB/2018/002 by the Technical Evaluation Report on 26 February 2018 and as per the advice given by Executive Procurement Committee meeting held on 05 March 2018, Technical Evaluation Committee had re-evaluated the above tender and rejected the lowest bidder without any reasonable justification and selected second lowest bidder.</p>	<p>In the first evaluation stage of bids, lowest bidder has been selected by Technical Evaluation Committee. Procurement committee advised to revisit the report of Technical Evaluation Committee considering the substantially responsiveness of the selected bidder and clarification report from selected lowest bidder had been obtained. Selected bidder should supply all inputs and equipment regarding the cleaning service as per the bid conditions and</p>	<p>As per the related Executive Procurement Meeting minute, Procurement Committee were of the view that selected bidder lack previous experience in finance sector institutions and proposed to revisit considering service level and quoted amount of all bidders. Therefore, it is questionable to the audit rejection of lowest bidder without any reasonable justification and selection of second lowest bidder and transparent procedure should be applied by the bank in the procurement process.</p>

amount quoted by lowest bidder is not adequate for continues cleaning service during the month. The previous experience in financial sectors was not a major reason to rejection of lowest bidder and above lowest bidder was unable to response substantially for the tender compared with bank requirements.

3.8. Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>Board approval had been granted to the promotion of two officers for the post of Senior Assistant General Manager. Following observations are made in this regard.</p>		
<p>(i) Approved cadre of Senior Assistant General Managers & Regional General Managers of the bank as at 31 December 2017 was 12. However, actual cadre of 13 was observed.</p>	<p>Approved cadre of Senior Assistant General Managers and Regional General Managers of the Bank as at 31 December 2017 was 12. However 13 officers were holding the position on that date and now it has been corrected.</p>	<p>Take necessary actions to fill vacancies based on the approved cadre.</p>
<p>(ii) Required qualifications for the above post have been changed even after calling applications mentioning as to match the qualifications of Regional General Managers specified in the Pradeshiya Sanwardhana Bank Act. By changing the required qualifications from time to time, may affect some officers a</p>	<p>The qualifications required for the post of Regional General Managers/Senior Assistant General Managers have been changed by submitting to the board paper 2018/1590. The qualification has been amended in order to comply with the provision of the Bank Act.</p>	<p>Take necessary actions to apply transparent procedure in the recruitment and promotions of employees.</p>

favor and another disfavor.

- (iii) One officer who had been issued disciplinary order to not consider for promotions had been promoted to the above post without fulfilling last 5 years increment requirement as specified in the condition no.2.3 of Office Instructions Circular Admin No.2018/108 dated 16 February 2018.
- Management assessed the performance of related officer and granted her increments from the date of incident except the increment for the year 2014. As per the amended disciplinary order her increment falling to the year 2011 was to be suspended and not the increment for the year 2014. This has been done delayed as the disciplinary order was issued in 2014.
- Take necessary actions to implement disciplinary orders in an appropriate manner without favor or disfavor to some employees.

4. Accountability and Good Governance

4.1. Corporate Plan

Audit Issue	Management Comment	Recommendation
At the end of year 2017, actual performance of the bank had been exceeded the projected business objectives shown in the corporate plan. Therefore, corporate plan has been revised as per the board paper no.2018/1616 dated 27 March 2018. However, available corporate plan forecasts only up to year 2020.	New corporate plan will be developed for 5 years beyond 2020.	Take necessary actions to prepare corporate plan without any delay.