

NSB Fund Management Company Limited - 2018

1.1 Opinion

The audit of the financial statements of the NSB Fund Management Company Ltd for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement 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.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company 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.

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.

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 Company'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 intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

1.4 Auditor's Responsibilities for the Audit of the 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 scepticism 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 Company'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 Company'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 Company 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company ;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Accounts Receivable and Payable

1.5.1 Receivables

Audit Issue	Management Comment	Recommendation
The Company was appointed as a lead manager for re-orientation of Sri Lankan Airlines project in 2016 by the Cabinet of Ministers. The balance receivable from treasury in this regard is Rs.246,939,587. This balance had not been confirmed by the Ministry of Finance as at 31 December 2018 and the Company was unable to get recovered the aforesaid due amount until the date of audit.	Negotiations are going on to recover the receivable.	Take necessary actions to recover the due amount to the company.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.35,500 and the corresponding profit in the preceding year amounted to Rs.362,786,903. Therefore an decrease of the financial result amounting to Rs.362,751,403 or 200 per cent was observed. The reason for the deterioration is the loss incurred on trading portfolio due to decrease of security prices followed by unfavorable movements in market interest rates.

2.2 Trend Analysis of major Income and Expenditure items

The interest income of the Company had increased by Rs.250 million or 25 per cent as compared with the previous year mainly due to increase in average portfolio value and the interest rates. The interest expense had also increased by Rs.179 million or 25 per cent due to increase in borrowing portfolio of the Company. Fee income has decreased by Rs.18 million or 27 per cent in 2018 due to decline the amount of successful bids of auction participants. The trading gain of Rs.314 million in 2017 converted into a trading loss of Rs.355 million in 2018 due to unfavorable movements in the market interest rates. Personal cost also increased by Rs.8 million due to increase in salaries and bonuses during the year 2018.

2.3 Ratio Analysis

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

- (i) Risk weighted Capital Adequacy Ratio of the Company is higher than the sector ratio, and had increased by 13.6 per cent compared with the financial year 2017.
- (ii) Return on Average Assets ratio and Return on Average Equity Ratio of the Company had decreased by 4.98 per cent and 19.9 per cent respectively in 2018 compared with the year 2017.
- (iii) The Core Capital of the Company had increased by 40 per cent from Rs.1,945 million in 2017 to Rs.2,723 million in 2018. It was above the minimum core capital requirement of Rs.1,000 million. The core capital has increased due to new share issue of Rs.800 million during the year under review.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Issue	Management Comment	Recommendation
The Company had not prepared a corporate plan or an action plan for the year 2018 as per Chapter 5 of the Public Enterprise Circular No. PED/12 of 02 June 2003.	Corporate Plan and Action Plan have been prepared for 2019-2021.	Ensure the compliance with relevant direction.