

## **NSB Fund Management Company Limited - 2020**

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### **1.1 Opinion**

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The audit of the financial statements of the NSB Fund Management Company Ltd for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, 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**

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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**

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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

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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 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 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 the 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**

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### **1.5.1 Receivables**

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#### **Audit Issue**

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The Company was appointed as a lead manager for reorientation of Sri Lankan Airlines project in the year 2016 by the Cabinet of ministers. In this regard, receivable balance from the treasury was Rs.246,939,587 and out of such balance, an amount of Rs. 88,939,587 had remained outstanding as at the end of 2020.

#### **Management Comment**

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Noted  
We have made number of requests so far. The latest request was sent on 20.07.2021

#### **Recommendation**

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Company should recover the receivable amount from treasury.

## **2. Financial Review**

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### **2.1 Financial Result**

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Net Profit of the Company had been increased from Rs.515 million in 2019 to Rs.608 million in 2020. Therefore, an improvement of Rs.93 million or 18 percent of the financial result was observed. The main reason for this improvement was increase of net interest income of government securities by 150.2 million or 35 percent when compared with previous year.

## 2.2 Trend Analysis of major income and expenditure items

Trend Analysis of major income and expenditure items of the year under review compared with the preceding year with the percentage of increase or decrease be evaluated and observations need to be shown under this heading.

Description	Variance Favorable/ (unfavorable)	Variance (%)	Reasons for Variance
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	(Rs.)		
Interest Income	51,867,492	4	Increase in investment on government securities.
Interest Expense	(98,319,993)	(10)	Decreased of charges on repurchase agreement.
Net fees & Commission Income	(7,218,871)	(13)	Net fee and commission income had been decreased due to completion of six trustee agreements during the year.
Depreciation & Amortization	(3,428,850)	(190)	Depreciation for Leasehold building to Rs. 3,633,473 in 2020 which was Rs. 605,579 in 2019 (moved to new Leasehold building in December 2019)

## 2.3 Ratio Analysis

Some important accounting ratios of the Company for the year under review as compared with Sector ratios are as follows.

Description	Sector		Company	
	2020	2019	2020	2019
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Return On Equity (ROE) (%)	30.5	28.5	16.96	17.01
Return On Asset (ROA)(%)	7.6	6	5.48	4.78
Risk Weighted Capital Adequacy Ratio (RWCAR) (%) (Minimum 10%)	27	27.6	35.01	27.88

### 3. **Operational Review**

#### 3.1 **Human Resources Management**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
1. The Company does not have a scheme of recruitments of employees and the approved cadre has not been determined as per the paragraphs 9.2 and 9.3 of the chapter 9 of the Public Enterprise Circular No.PED/12 of 02 June 2003.	NSB FMC has submitted the Organization Structure, Approved cadre of the Company to the Dept. of Public Enterprises, Ministry of Finance. As a Primary Dealer Company, NSB FMC has a HR Policy (including succession plan) and, all recruitments, promotions and remunerations are made accordance with the policy with the approval of BHRRC and Board of Directors.	Company should comply with the PED circulars as a government owned company.
2. The approved cadre and the actual cadre of the Company as at 31 December 2020 was 24 and 20 respectively. The Four vacancies comprised of 3 Investment Assistant level and one post in management Level vacancies. Vacancies in Key positions of Investment assistant and Manager may be directly affected to the fulfillment of main objectives of the Company.	We have recruited 02 Investments Assistants and a Senior Manager already. Other recruitment is in the process.	Optimum staff should be maintained to achieve the objectives of the company.

#### 4. Accountability and Good Governance

##### 4.1 Annual Action Plan

Audit Issue	Management Comment	Recommendation
1. As mentioned in the action plan 2020-2022, The company has planned to increase the number of new customers by 70 in the year 2020. However, at the end of the year, number of customers had been increased only by 29. To increase the customer base, planned activities had not been achieved by the company.	Due to the covid-19 pandemic prevailed in the country, employees were worked in roster basis and prioritized the daily routines. And, third parties also were not available for coordinating other activities due to lock down, therefore, as everyone impacted, NSB FMC also unable to complete the tasks as planned. With those difficulties, the Company attracted 29 customers in 2020.	Company should implement annual planned activities to achieve objectives of the company.
a) It has planned to introduce Mobile app for customer convenience in the year 2019. However, company had not still introduced a mobile app for the said purpose.	a) There were some delays in the process due to the current situation. However, implementation of Customer Management System is in the process and it could be used as a mobile app in next year.	
b) With an aim to strengthening the internal processes, the company has planned to acquiring a new Treasury Management System by 2019 and create Research & development unit by 2020. However, the company was unable to complete above aims until September 2021.	b) We are in the UAT process of implementing a new treasury system. (Due to the Covid 19 lock down situation, the technical expertise assist to the System has been given the support through remote channel).  There are some developments to be done before going live with remote support. As a result, it was got delay. However, it has now in the stage to finish the UAT sign off and start to go live.  Creating a Research and Development unit is in the process and we have requested the approval of Securities and Exchange Commission to set up that unit.	