

## **Sri Lanka Savings Bank Limited - 2021**

### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the Sri Lanka Savings Limited (“ Bank”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of income, statement of changes in equity and statement of cash flow 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 report 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 Bank as at 31 December 2021, 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 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 intend 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 Audit Scope

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 Audit Observations on the preparation of Financial Statements

### 1.5.1 Suspense Accounts

Audit Issues	Management Comment	Recommendation												
i. An unidentified balance of Rs. 258,700 had been included in the “deposit’s payable to PSDB customers” (Margin) account.	The margin account of the PSDB recoveries shows total of Rs.26,061,777.20 as per the GL balance as at 31.12.2021. Out of which Rs. 258,700/- had not been identified and included in the “deposit’s payable to PSDB customers” margin account. Agreed and would be rectified in 2022.	Process of identifying balances should be strengthened.												
ii. Following unidentified balances had been shown under other liabilities without being cleared.	1. Direct deposit to People’s Bank by customers without any customer identification or reference number.  All possible efforts have been taken to identify the customers. However, we have not been able to identify them. Those amounts have been transferred to suspense account (unidentified bank deposits). 2. Agreed. We have noted to rectify the issue in the year 2022. 3. Agreed. We have noted to rectify the issue in the year 2022. 4. This is an automated account. Hence, this has been reported to system provider i.e. Scinter to attend. Noted to rectify the issue in the year 2022.	Process of identifying balances should be strengthened.												
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### 1.5.2 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
As per the Letter No:02/19/319/0001/004 dated 05 January 2021 of Director of Bank Supervision of Central Bank of Sri Lanka, the Bank is going to liquidate or merge with National Savings Bank (NSB) by 30 September 2021. Since that date, the bank's operations had been suspended and no loan disbursements were made and no new deposits were obtained. However, Bank had not liquidated or merged with NSB until this reporting date.	It was informed by the NSB Management that an opinion has been sought from Attorney General's Dept and Ministry of Finance for further proceedings with the merger. The AG's Dept has informed by their letter dated 09.09.2022 that they could deliver legal advice only after Treasury gives its approval to the merger. Accordingly, NSB has referred the matter to the Secretary to the Treasury by their letter dated 21.09.2022 seeking a policy direction regarding the merger and their decision yet to be received.	Immediate actions should be taken to finalize the process of merge.

### 1.5.3 Documentary Evidences not made available for Audit

Audit Issues	Management Comment	Recommendation
i. Following differences were observed between loan balances considered for impairment calculation and Loan balances in general ledger. The bank considered arrears interest of moratorium facilities for the impairment calculation. But the arrears interest has not been recognized as interest income during the year 2021.	Agreed. These have been rectified in January 2022.	Internal Control procedure should be strengthened to avoid this kind of situation.

ii.

Loan Type	Impaired Balance (Rs.)	GL Balance (Rs.)	Difference (Rs.)
-----	-----	-----	-----
	--	-	---
Lease & HP	277,020,202	276,606,259	413,943
Other Loans	542,475,218	527,580,956	14,894,262
Personal Loans	184,442,603	184,228,695	213,908

Praja Diriya		14,630,68	253
	14,630,	5	
	938		
Micro-Finance	506,473	505,157,4	1,315,9
Loans	,433	56	77

- iii. No evidences were available to verify the balance of Rs.13,376,694 under the account named "Discount paid in advance". Discount paid in advance Evidence and break ups should be maintained for every balance in the financial statements.
- iv. An amount of Rs.3,800,000 (200,000\*19) had been accrued as rent for the building where the Matara Branch is located based on letter from the owner (NSB). However, the bank had not entered in to a rent agreement with NSB in this regard. Negotiations going on with NSB, Parent Company regarding the monthly rent to be paid. Bank should enter in to an agreement before providing an amount for a rent. Action will be taken to enter in to an agreement with NSB on renting out the building.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

#### Audit Issue

#### Management Comment

#### Recommendation

- i. Actions had not been taken to recover the cash shortage totaling to Rs.48,498 from the responsible officers which was prevailing from previous years. Noted the issue and this will be rectified in the year 2022. Internal Control procedure should be strengthened to avoid this kind of situation.
- ii. Following receivables were outstanding since several years without being recovering. 1. Stamp duty amount is a payment made when acquiring of a mortgaged property to the Bank on defaulted loan customer (Visterin Road property). Acquiring mortgage property should be accounted correctly and actions should be taken to clear or settle the receivable balances.
- iii.
- | Items                           | Amount (Rs.) |
|---------------------------------|--------------|
| -----                           | -----        |
| Stamp duty receivable           | 1,999,000    |
| Sundry Debtors                  | 21,261       |
| Staff Bonus Advance Receivables | 20,000       |
- At the auction of the property, if any bidder not responded, the Bank has to get the property. At that

point the Bank has to pay the said stamp duty receivable.

2. Sundry Debtors: Noted and will rectify the issue in the year 2022.

## 1.6.2 Payables

Audit Issue	Management Comment	Recommendation														
<p>i. Following other liability balances at the year-end were outstanding for more than one year without clearing.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Items</th> <th style="text-align: right;">Amount (Rs.)</th> </tr> <tr> <th style="text-align: left;">-----</th> <th style="text-align: right;">-----</th> </tr> </thead> <tbody> <tr> <td>Tax Penalty</td> <td style="text-align: right;">171,888,403</td> </tr> <tr> <td>Error Correction savings</td> <td style="text-align: right;">1,975,871</td> </tr> <tr> <td>Maturity Capital Suspense Account – FD</td> <td style="text-align: right;">267,853</td> </tr> <tr> <td>Receivable – Staff</td> <td style="text-align: right;">181,070</td> </tr> <tr> <td>Loan Security Fund –Praja Diriya</td> <td style="text-align: right;">67,350</td> </tr> </tbody> </table>	Items	Amount (Rs.)	-----	-----	Tax Penalty	171,888,403	Error Correction savings	1,975,871	Maturity Capital Suspense Account – FD	267,853	Receivable – Staff	181,070	Loan Security Fund –Praja Diriya	67,350	<p>1. Tax Penalty: Rs.91Mn has been waived off by the Inland Revenue Dept on 30.06.2022 and balance available is Rs.79.9Mn. The Inland Revenue Dept has agreed to waive off this balance as well.</p> <p>2. Receivable – Staff: Agreed and error would be rectified in the year 2022.</p> <p>3. Agreed and error would be rectified in the year 2022</p> <p>4. Loan security fund – Praja Diriya : To minimize the risk, a fee has been charged from the customers.</p>	<p>Outstanding balances should be reconciled and cleared within reasonable period.</p>
Items	Amount (Rs.)															
-----	-----															
Tax Penalty	171,888,403															
Error Correction savings	1,975,871															
Maturity Capital Suspense Account – FD	267,853															
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<p>ii. Following abnormal minus balances were included under payables at the end of the year 2021.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Items</th> <th style="text-align: right;">Amount (Rs.)</th> </tr> <tr> <th style="text-align: left;">-----</th> <th style="text-align: right;">-----</th> </tr> </thead> <tbody> <tr> <td>Cheque control account</td> <td style="text-align: right;">2,673,801</td> </tr> <tr> <td>Savings Standing order control account</td> <td style="text-align: right;">48,310</td> </tr> </tbody> </table>	Items	Amount (Rs.)	-----	-----	Cheque control account	2,673,801	Savings Standing order control account	48,310	<p>1. The balance of Cheque control account amounting to Rs.2,673,801 and Suspense account clearing Rs. 1,980,686 (under item 1.4.3 (ii)) would create difference of Rs.693,115/-. We will reconcile this in the year 2022.</p> <p>2. Savings Standing Order Control Account had already been rectified</p>	<p>Bank should clear these abnormal balances.</p>						
Items	Amount (Rs.)															
-----	-----															
Cheque control account	2,673,801															
Savings Standing order control account	48,310															

## 1.7 Cash Management

Audit Issue	Management Comment	Recommendation
As per the bank reconciliation statements as at 31 December 2021, some credit and debit balances had been prevailed for the period ranging from 01 month to 06 years without being clearing.	<ul style="list-style-type: none"> <li>• Service Charge and Balance Confirmation have been rectified.</li> <li>• Direct Deposits and Unidentified</li> <li>• Deposits cannot be cleared: without proper identification. We are making every effort to identify them.</li> <li>• Correction of Counter Cash and Error posting Will be rectified.</li> </ul>	Internal Control procedure should be strengthened to avoid this kind of situation.

  

Description	Amount (Rs.)
-----	-----
Direct Deposits (Credit)	409,797
Unidentified Deposits (Credit)	614,406
Service Chargers (Debit)	1000
Balance Confirmation (Debit)	500
Receipt Transfer (Debit)	13500
Correction of counter cash (Debit)	2000
Error postings (Debit)	78,880

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.255,144,487 and the corresponding profit in the preceding year amounted to Rs.275,056,231. Therefore, a deterioration amounting to Rs.19,911,744 of the financial result was observed. The main reasons for the deterioration were decreasing interest income by Rs.187,149,387 or 24 percent and decreased of fee and commission income by Rs. 2,003,931 or 48 percent and decreased other operating income by Rs. 8,356,389 or by 10 percent since the operation of the bank has been suspended.

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

Analysis of major income and expenditure items of the year under review compared with the preceding year with the percentage of increase or decrease are given below.

Description	Variance (Rs.)	Variance %	Reasons for Variance
Interest Income	(187,149,387)	(24)	Reduced interest rate of the investments and disbursements had not been made during the year due to suspension of operations by the CBSL on 05 January 2021.
Interest Expenses	(20,366,904)	(27)	Most of the customers had withdrawn their deposits and the interest rate has also been decreased. Further operations have been suspended by the CBSL on 5 January 2021.

Fee Commission Income	&	(2,003,931)	(48)	As the loans had not been disbursed due to suspension of operations by the CBSL on 5 January 2021, the related income charged from borrowers such as processing fees had not been generated.
Fee Commission Expenses	&	(222,044)	(82)	As the loans had not been disbursed due to suspension of operations by the CBSL on 5 January 2021, the related costs of loan processing such as CRIB charges had not been generated.
Depreciation Amortization Expenses	&	(1,870,348)	(17)	As the lease agreement of head office was expired in the year under review and renewed only for one year.
Income Tax Expenses	Tax	(65,198,381)	(46)	The Bank had made a provision for income tax at a rate of 28 percent in the year 2020 and 24 percent in the year 2021.
Impairment		(135,256,679)	(228)	Due to the suspension of operations, most of the loans were terminated and no disbursements were made and only recoveries of the loans had been done during the year 2021.

### 2.3 Ratio Analysis

Certain important ratios of the Bank for the year under review and preceding year are given below.

Description	Sector Ratios* (%)	SLSBL	
		2021 (%)	2020 (%)
<b>Profitability Ratios</b>			
Return on Equity (ROE)	21.5	5	4.8
Return on Assets (ROA)	1.7	5	4.62
Net Interest Margin	4.1	10	7.94
<b>Asset Quality Ratio</b>			
Gross Non – Performing Ratio	6.5	22.81	20.73
<b>Liquidity</b>			
Liquid Asset Ratio	52.8	742	511.32
<b>Capital Adequacy Ratios</b>			
Capital Adequacy – Tier 1 (Minimum 5 percent)		101	82.04

\*Sector ratios were extracted from the information published by CBSL.



### 3. Operational Review

#### 3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>i. There was no proper division of activities in the Bank. Eg: Staff in the finance division is handling hire purchases and lease activities.</p>	<p>The Senior Manager-Finance &amp; Planning is also acting as the Head of Leasing. However, there is adequate division of work and control mechanisms have been enhanced.</p>	<p>To prevent fraudulent activities, bank should maintain division of functions.</p>
<p>ii. The Bank had obtained the approval from Central Bank on 13 January 2021 to purchase an unregistered brand-new vehicle. However, the bank had purchased a registered vehicle imported under government permit scheme, being second owner.</p>	<p>As per the request made by the Bank the Central Bank has granted approval to make payment to the vehicle for which purchase order had already been issued. The purchased vehicle is a Brand-New Vehicle. This has been confirmed by the respective vehicle dealer United Motors.</p>	<p>The bank should act as guidance received from the Central Bank.</p>

#### 3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation												
<p>i. No action had been taken to recover the below mentioned investments of PSDB or making provisions for those amounts.</p> <table border="1" style="margin-left: 20px;"> <thead> <tr> <th>Company</th> <th>Amount (Rs.)</th> </tr> </thead> <tbody> <tr> <td>-----</td> <td>-----</td> </tr> <tr> <td>Paradise Metal Crushers (PVT) Ltd</td> <td>6,000,000</td> </tr> <tr> <td>Vanik Incorporation</td> <td>57,194,500</td> </tr> <tr> <td>Forbes</td> <td>30,000,000</td> </tr> <tr> <td>HabibBank</td> <td>78,400,000</td> </tr> </tbody> </table>	Company	Amount (Rs.)	-----	-----	Paradise Metal Crushers (PVT) Ltd	6,000,000	Vanik Incorporation	57,194,500	Forbes	30,000,000	HabibBank	78,400,000	<ul style="list-style-type: none"> <li>• Paradise Metal Crushers (PVT) Ltd and Vanik Incorporation has been liquidated and no documents are available with us. This has been transferred to the Bank at the merger of PSDB.</li> <li>• Forbes also liquidated on bankruptcy. No documents available with the Bank.</li> <li>• Habib Bank - CHC/132/2001/1 case instituted by PSDB (later substituted SLSB) Judgment has been delivered on 12.01.2010 in favors of Habib Bank.</li> <li>• Appeal case had been filed by SLSB and argument done</li> </ul>	<p>Bank should take actions to recover the investments of PSDB.</p>
Company	Amount (Rs.)													
-----	-----													
Paradise Metal Crushers (PVT) Ltd	6,000,000													
Vanik Incorporation	57,194,500													
Forbes	30,000,000													
HabibBank	78,400,000													

before supreme court.  
Judgment is reserved case  
No:  
SC/CHC/Appeal/22/2010.

ii. Following non-performing loans under each category were arrears over 540 days.

The Bank has reduced the NPL Portfolio by Rs 146.2 Mn in the year 2021 despite the COVID 19 pandemic. Proper recovery procedures should be conducted by the bank. Close recovery follow up is done for all NPL facilities. We have noted to reduce the NPL Portfolio.

<b>Loan Type</b>	<b>Arrears more than 540 days (Rs.)</b>	<b>Arrears as a Percentage of total outstanding (%)</b>
Door to Door	2,719,118	64
Swashakthi	2,014,284	89
Vehicle	1,549,601	100
REPPA	43,029,655	100
Praja Diriya	13,331,457	91
Micro Finance development	7,474,224	100
Micro Finance	232,392,792	46

### 3.3 Human Resources Management

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
i. The approved cadre and the actual cadre of the Bank as at 31 December 2021 was 154 and 105 respectively. Hence, there were 49 vacancies or 32 percent of vacancies from approved cadre. It was comprised by 12 positions in Senior Level, 76 positions in Junior Level and 17 positions in Primary Level. It was observed that there were vacancies in key positions such as Chief Manager, Senior Manager, Manager and Branch Managers.	The staff recruitment for filling the vacant positions of the Bank was suspended by the Management to adhere the Directions given by Central Bank of Sri Lanka as per letter dated 05th January 2021.	Bank should have sufficient staff to conduct banking activities.
ii. Although two employees had been promoted for the post of Stenographer-III on 01 September 2020 that position does not exist in the approved cadre.	This decision was taken by the Executive Human Resources Committee Meeting Chaired by the GM/CEO of NSB held on 18 <sup>th</sup> December 2019 to place them at the Grade of Stenographer III to compatible with of NSB	Bank should make recruitment or promotions within the approved cadre of the bank.

structure. It was decided to amend SLSB structure similar to the NSB to place SLSB staff at NSB cadre positions due to the merger.

iii. According to the PED Circular No:03/2015, person who holds any of the post of chairman in more than one entity draws the allowances as given bellows,

1st office	Full allowance
2nd office	50% allowance
3rd office	25% allowance

The chairperson was appointed to the Bank on 05 February 2020 and it was the third office of chairperson. Hence, the entitlement is 25 percent of the monthly allowance i.e., Rs.20,000 per month (80,000\*25%). However, the bank has paid a monthly allowance of Rs.40,000 to the chairperson for 22 months until the end of year under review. Thus, an amount of Rs. 440,000 had been overpaid by the bank.

The NSB, parent Company of SLSB pays full allowance from the first office and SLSB, the subsidiary of NSB pays “50% of the allowance from the second office” and NSB Fund Management Company also a subsidiary of NSB pays 25% from the third office as the said PED circular

Bank should comply with Treasury circulars.