

State Mortgage and Investment Bank Provident Fund – “A” - 2014.

The audit of financial statements of the State Mortgage and Investment Bank Provident Fund –“A” for the year ended 31 December 2014 comprising the balance sheet as at 31 December 2014 and the income and expenditure account for the year then ended, cash flow statement and the statement of changes in equity was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Paragraph 9 of Part I ; Section (1) General of the Extraordinary Gazette No.38/19 of the Democratic Socialist Republic of Sri Lanka dated 01 June 1979.

1.2 Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedure selected depends on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In

making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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 Fund's internal control .An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the State Mortgage and Investment Bank Provident Fund –“A” as at 31 December 2014 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Standards

The Cash flow statement of the Fund had not been presented as prescribed format mention in the LKAS 07.

2.2.2 Accounting Deficiency

Following accounting deficiencies were observed in audit.

- (i) An unusual debit balance amounting to Rs. 265,253 had been shown in the tax payable account as at the balance sheet date without being adjusted.
- (ii) A difference of Rs. 1,795,888 had been observed between the balances of the individual Funds shown in the financial statements of provident Fund A and B and the corresponding balances shown in the financial statement of the State Mortgage and Investment Bank.

2.2.3 Accounts Receivable and Payable

Following observations are made.

- (a) Accumulated annual Bank's contribution to the Fund as at end of the year under review amounted to Rs. 14,211,675 and this had been shown as receivable over number of years without being settled to the fund .

- (b) A sum of Rs. 18,268 had been shown in the Suspense Account (Ex Members) since, the year 2004, without being taken action to clear the balance.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Fund during the year under review had resulted in a surplus of Rs. 3,722,538 as compared with the corresponding surplus of Rs. 5,663,546 in the preceding year thus showing a decrease in financial result by Rs.1,941,008 or 34.27 per cent. The main reason for this negative trend was the increase the retirement of existing members during the year under review.

3.2 Operating Review

3.2.1 Financial Review

According to the information made available, a summary of the operation of the Fund for the last 03 years and the year under review shown below.

Sources of Income	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
	Rs.	Rs.	Rs.	Rs.
Interest Income on Fixed Deposits, Loans to Members and Savings Account	1,254,998	1,013,264	844,336	1,250,822
Supplementary Contribution of the Bank	2,841,401	5,222,951	6,065,056	5,271,604
Total Income	4,096,399	6,236,215	6,909,392	6,522,426
Expenditure	373,861	572,669	518,657	599,455
Surplus for the year	3,722,538	5,663,546	6,390,735	5,922,971

The following observations are made in this connection.

- (a) The interest income on fixed deposit, loans to members and savings accounts had decreased from Rs.1,250,822 to Rs.844,336 during the period of 2011 to 2012. However, the interest income had increased from Rs. 1,013,264 to Rs. 1,254,998 or 23.85 per cent during the year under review as compared with that of the preceding year .
- (b) The supplementary Contribution had been increased from Rs. 5,271,604 to Rs. 6,065,056 or 15 percent during the period 2011 to 2012.It had been decreased from Rs. 6,065,056 to Rs. 2,841,401 or 53.15 per cent during the period 2012 to 2014.
- (c) The Expenditure of the Fund had decreased from Rs. 599,455 in 2011 to Rs.518,657 in 2012 by 13.47 per cent and furthermore, the expenditure had decreased by 34.71 per cent from Rs.572,669 in 2013 to Rs. 373,861 in the year under review.

3.3 Members Contribution

According to information made available for audit, a summary of the contribution and interest received to the Fund for the year under review and the preceding year are given below.

	2014				2013			
	<u>Members</u> <u>Contribution</u>	<u>Bank</u> <u>Contribution</u>	<u>Interest</u> <u>Credited</u>	<u>Total</u>	<u>Members</u> <u>Contribution</u>	<u>Bank</u> <u>Contribution</u>	<u>Interest</u> <u>Credited</u>	<u>Total</u>
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Brought Forward Balance	5,791,025	8,683,958	29,672,141	44,147,124	6,608,425	9,909,385	33,583,116	50,100,926
<u>Add</u>								
Contribution and Sundry debtors during the year	500,841	751,262	3,722,539	4,974,642	740,960	1,111,441	5,663,546	7,515,947
Total	6,291,866	9,435,220	33,394,680	49,121,766	7,349,385	11,020,826	39,246,662	57,616,873
<u>Less</u>								
Paid during the year	2,555,273	3,831,740	12,047,266	18,434,279	1,558,360	2,336,868	9,574,521	13,469,749
Balance carried forward	3,736,593	5,603,480	21,347,414	30,687,487	5,791,025	8,683,958	29,672,141	44,147,124

The members' contribution to the Fund had decreased by Rs. 240,119 or 32.40 per cent in the year 2014 when compared with that of the year 2013 and the Bank contribution also had decreased by Rs. 360,179 or 32.40 per cent and total payment to the members had increased by Rs. 4,964,530 or 36.85 per cent in the year 2014 when compared with the year 2013.

3.4 Loans Granted to Members

- (a) According to the information made available, details of loans granted to members for the year under review and the preceding year is given below.

	<u>Year ended 31 December</u>	
	<u>2014</u>	<u>2013</u>
	<u>Rs.</u>	<u>Rs.</u>
Balance as at 01 January	4,610,885	4,895,657
<u>Add</u>		
Loans granted to the members during the year	145,000	1,950,000
Refunds to members	4,755,885	6,845,657
<u>Less</u>		
Recoveries during the year	<u>(2,365,606)</u>	<u>(2,234,772)</u>
Balance as at 31 December	<u>2,390,279</u>	<u>4,610,885</u>

The loans granted to the members had decreased by Rs. 1,805,000 or 92.56 per cent in the year under review, when compared with the year preceding year. The recoveries had increased by Rs. 130,834 or 5.85 per cent in the year under review when compared with the preceding year.

- (b) The following loans amounting to Rs. 2,145,000 had been granted to members without being considered retirement dates of the borrowers / members.

Employee Number	Loan granted Date	Loan Amount Rs.	Remaining period of Service	Loan Settlement Period
98	01.01.2015	2,000,000	1 year & one month	10 years
88	04.07.2014	85,000	8 months	10 years
88	08.04.2014	<u>60,000</u>	11 months	10 years
		<u>2,145,000</u>		

4. Accountability and Good Governance

4.1 Delays in Presentation of Financial Statements

According to the Paragraph 4.3 of the Public Finance Circular No.PF/423 of 22 December 2006, the financial statements of the Fund for the year under review should be submitted to the Auditor General within 02 months after the close of the financial year. However, the financial statements for the year under review had been submitted for audit only 20 April 2015.

4.2 Establishment, Authority and Management of the Fund

The State Mortgage and Investment Bank Provident Fund –“A” had been established in terms of Section 85 (2) of the Ceylon State Mortgage and Investment Bank Law, No.13 of 1975. All monthly or daily paid employees of the Ceylon State Mortgage Bank who, under the provisions of Section 85(2) of the Ceylon State Mortgage and Investment Bank Law, No.13 of 1975, are deemed to be employees of the Bank and have accepted employment in the Ceylon State Mortgage and Investment Bank shall, as a condition of their employment by Bank, become members of the Provident Fund “A” and the Fund shall be controlled, managed and administered by a committee of Management consisting of two directors to represent the employer, to be nominated by the Board of Directors of the Bank and two members of the Fund to represent the employees.