

## **Sri Lanka Deposit Insurance and Liquidity Support Scheme - 2013**

The audit of financial statements of the Sri Lanka Deposit Insurance and Liquidity Support Scheme managed by the Central Bank of Sri Lanka for the year ended 31 December 2013 comprising the statement of the financial position as at 31 December 2013 and the comprehensive income statement and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 10.3 of the Sri Lanka Deposit Insurance Scheme Regulations published in the Extraordinary Gazette of the Democratic Socialist Republic of Sri Lanka No. 1673/11 dated 28 September 2010.

### **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 the 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, in consistent with International Standard 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 procedures selected depend 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 Sri Lanka Deposit Insurance and Liquidity Support Scheme'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 Sri Lanka Deposit Insurance and Liquidity Support Scheme'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 audit opinion.

#### **1.4 Objectives of the Sri Lanka Deposit Insurance and Liquidity Support Scheme**

The Sri Lanka Deposit Insurance Scheme had been established under the Regulations published in the Extraordinary Gazette of the Democratic Socialist Republic of Sri Lanka No. 1673/11 dated 28 September 2010 by the Chairman of the Monetary Board under the Section 32 E of the Monetary Law Act (Chapter 422), implemented in the interest of the overall financial stability of the country and it would initially outline a mechanism to protect small depositors from failure of financial institutions, thereby promoting the stability of financial institutions by maintaining small – depositor – confidence and commenced its operations with effect from 01 October 2010. The Sri Lanka Deposit Insurance Scheme had been renamed as “Sri Lanka Deposit Insurance and Liquidity Support Scheme” with effect from 22 November 2013 to publicized the availability of liquidity support thereby further enhancing the public confidence on the financial system and strengthen the overall financial stability of the country. The Sri Lanka Deposit Insurance and Liquidity Support Fund which is operated and managed by the Monetary Board had been established in term of Paragraph 7.1 of the above Regulations.

## **2. Financial Statements**

### **2.1 Opinion**

In my opinion, the financial statements give a true and fair view of the financial position of the Sri Lanka Deposit Insurance and Liquidity Support Scheme as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

## **3. Financial and Operating Review**

### **3.1 Financial Results**

According to the financial statements presented, the operations of the Sri Lanka Deposit Insurance and Liquidity Support Scheme for the year under review had resulted in a surplus before income tax of Rs.5.30 billion as compared with the corresponding surplus of Rs. 4.29 billion in the preceding year thus indicating an increase in the surplus by Rs. 1.01 billion or 23 per cent.

### **3.2 Fund Position**

According to the statement of the financial position of the Sri Lanka Deposit Insurance and Liquidity Support Scheme, the Sri Lanka Deposit Insurance and Liquidity Support Fund as at 31 December 2013 had been increased by Rs. 5.01 billion or 67 per cent as compared with the end of the preceding year.

### **3.3 Operating Review**

#### **3.3.1 Income Tax Penalty**

The scheme had charged a sum of Rs. 110,348,442 as penalty due to delay in payment of income tax for the period from 01 October 2010 to 31 December 2011. The Deputy Governor of CBSL commented that, “the Scheme had sought clarifications from Inland Revenue Department on the tax regulations related to SLDILSS from the inception of the Scheme. Tax exemption was granted with effect from 01 April 2013 and a tax assessment together with a penalty was imposed for the period from 01 October 2010 to 31 December 2011”.

#### **3.3.2 Cash Flow**

According to the Cash flow statement of the SLDILSS, the net cash flow from investing activities was shown instead of disclosing of cash inflows and outflows separately.