

Sri Lanka Deposits Insurance Fund - 2011

1. Financial Statements

1.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Deposits Insurance Fund as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Accounting Policies

The Monetary Board had decided to recognize the premium paid by member institutions on the eligible deposits and penalty on late payments in cash basis and according to the paper presented to the Monetary Board for the above decision, it was indicated that the reason for above accounting policy is to avoiding the scheme make responsible to pay the compensation on deposits of member institutions which have not been paid the premia.

Following observation is made in this connection,

Paragraph No.10.2 of the SLDIS Regulations published in the Extraordinary Gazette No.1673/11 on 28 September 2010 and the Paragraph No. 02 of the accounting policies and notes attached to the annual Financial Statements of the year 2011, mentioned that the Financial Statements of the Scheme are prepared in accordance with the Sri Lanka Accounting Standards(SLAS).

The SLAS No. 03 indicated that “ An enterprise should prepare its Financial Statements, except for Cash Flow Statements in accrual basis of accounting and under the accrual basis of accounting, transactions and events are recognized when they occur and they are recorded in the accounting records and reported in the financial statements of the period to which they relate”

The Management of the SLDIS has been informed me that the premia to be received for the year could not be practically measured due to non-availability of information on eligible deposit liabilities of the Member Institutions.

1.2.2 Accounting Deficiencies

Interest receivable on treasury bill had been understated in the Financial Statements by Rs.542,722 due to an erroneous Computation

1.2.3 Matters in Contentious Nature

Following observations are made in this regard.

- (a) Paragraph No. 2.5 of the SLDIS regulation stated that the “SLDIS would be implemented in the interest of the overall financial stability of the country and it would initially outline a mechanism to protect small depositors from the failure of Financial Institutions, thereby promoting the stability of financial institutions by maintaining the small depositors confidence”

But the reason included in the paper presented to the Monetary Board to get the approval for the new accounting policy statement indicated that the fund may not made liable for the compensation payments to the deposit holders of the financial institutions which have not been paid the premium, is questionable.

- (b) By the Internal Operations Circular No. 26 dated 07 October 2010 issued by the Director of Bank Supervision, 03 officers attached to the same division had transferred to the Deposits Insurance Scheme with effect from 05 October 2010. Subsequently Monetary Board had decided to charge reasonable amount of rent and administrative expenses to the SLDIS from 01 January 2011. As such, SLDIS had made a provision of Rs.2,441,175 for the above 03 employees based on their full year salary against income of the fund for the year under review. However, same salary amount had been charged against the CBSL income during the same year instead of accounting as a receivable from the SLDIF in the Balance Sheet . As a result salary payment amounting to Rs.2,441,175 had been duplicated in the Income Statements of both SLDIS and the CBSL during the year 2011.

1.2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

In accordance with the Section No.137 of the Inland Revenue Act No. 10 of 2006 , where any person is engaged in any secondary market transaction involving any security or treasury bond issued under the Registered Stock and Securities Ordinance(Chapter 420), or Treasury Bill issued under the Local Treasury Bills Ordinance (Chapter 417), or Central Bank Security issued under the Monetary Law Act (Chapter 422) referred to in section 134, on which the income tax has been deducted during any year of assessment at the rate of ten *per centum* at the time of issue of such Security, Bond or Bill, such person is entitled to a notional tax credit at ten *per centum* of the grossed up amount of interest income from such secondary market transaction, to an amount of one ninth of the same, if such interest income forms part of the statutory income of such person being a company or the assessable income of such person being a person other than a company, for that year of assessment.

However, the DIS had not been complied with the above provision when calculating the Income Tax liability for the year 2011.