

State Mortgage and Investment Bank Provident Fund – “B”-2011

1 Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 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 –“B” as at 31 December 2011 and its financial performance for the year then ended in accordance with Generally Accepted Accounting principles .

1.2 Comments on Financial Statements

1.2.1 Accounting deficiencies

Following accounting deficiencies were observed in audit.

- (a) Interest had not been calculated and credited to the members accounts during 2010 and 2011 amounted to Rs: 132,762 and Rs.122,505 respectively . Thus indicating Interest credited to member account and supplementary contribution amount had been understated by Rs: 255,567.
- (b) Investment income had been understated during the year under review by Rs: 22,678 due to erroneous calculation of interest income.

1.2.2 Non-compliance with Laws, Rules, Regulations, and Management Decisions

Following instances of non-compliance were observed in audit.

Reference to Laws, Rules, Regulations etc.

Extra ordinary Gazette, No.38/19-
Friday, dated 01 June 1979 .
Rule 04

Non-Compliance

All monies standing to the credit of members shall be invested in debentures of any government bank or Government securities. However all funds had been invested in fixed deposit of State Mortgage and Investment Bank.

2. Financial and Operating Review

2.1 Financial Results

- (a) According to the financial statements presented, the operations of the Fund during the year under review had resulted in an interest credited to members accounts amounting to Rs. 1,813,064 as compared with the corresponding interest credited to members accounts amounting to Rs.2,121,491 for the preceding year thus showing a decrease in financial results by Rs.308,427 or 14.54 per cent. The main reason for this negative trend was the decrease of total contribution of the members as well as decrease of interest rate during the year under review.
- (b) According to the information made available, the operating results of the Fund for the last 03 years and for year under review are shown below.

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	Rs.	Rs.	Rs.	Rs.
(i) Interest Income on Fixed Deposits and Savings Accounts	1,675,320	1,976,387	2,417,405	1,775,210
(ii) Interest Income on Loans to Members	<u>67,197</u>	<u>89,225</u>	<u>73,230</u>	<u>92,179</u>
(iii) Total Generated Interest Income	1,742,517	2,065,612	2,490,635	1,867,389
(iv) Tax Expenses	<u>(181,306)</u>	<u>(212,149)</u>	<u>(284,719)</u>	<u>(215,014)</u>
(v) Net Interest Income	1,561,211	1,853,463	2,205,916	1,652,375
(vi) Supplementary Contribution by State Mortgage and Investment Bank	251,853	268,028	626,569	497,011
(vii) Total interest credited to Members	<u>1,813,064</u>	<u>2,121,491</u>	<u>2,832,485</u>	<u>2,149,386</u>

The following observations are made in this connection

- a) The interest income on fixed deposits and savings accounts had decreased from Rs. 1,775,210 to Rs.1,675,320 or 5.63 per cent during the period 2008-2011.
- b) The interest income on loan to members had decreased from Rs. 92,179 to Rs.67,197 or 27.10 per cent during the period 2008-2011.
- c) The supplementary contribution had decreased from Rs. 497,011 to Rs.251,853 or 49.32 per cent while total interest credited to member accounts had decreased significantly from Rs.2,149,386 to Rs. 1,813,064 or 15.65 per cent during the period 2008-2011.

2.2 Loan Granted to Members

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

	<u>Year ended</u> <u>2011</u>	<u>31 December</u> <u>2010</u>
	Rs.	Rs.
Brought Forward Balance	1,534,010	1,525,241
<u>Add</u>		
Loans granted to members during the year	<u>120,000</u>	<u>200,000</u>
	1,654,010	1,725,241
<u>Less</u>		
Recoveries during the year	<u>761,543</u>	<u>191,231</u>
Carried Forward Balance	<u>892,467</u>	<u>1,534,010</u>

The loan granted to members had decreased by Rs.80,000 or 40 per cent in the year 2011 when compared with the year 2010 and recoveries had increased by Rs.570,312 or 2.98 per cent in the year 2011 when compared with the year 2010.

2.3. Members Contribution

According to information made available to audit, a summary of members contribution Bank contribution and interest credited to members accounts for the year under review and preceding year are given below.

	2011				2010			
	Members Contribution	Bank Contribution	Interest Credied	Total	Members Contribution	Bank Contribution	Interest Credited	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Brought Forward Balance	3,811,759	5,709,077	12,871,285	22,392,121	3,500,191	5,241,726	10,749,794	19,491,711
<u>Add</u>								
Contribution during the year	292,647	438,971	1,813,064	2,544,681	311,568	467,351	2,121,491	2,900,410
Total	4,104,406	6,148,048	14,684,349	24,936,802	3,811,759	5,709,077	12,871,285	22,392,121
<u>Less</u>								
Paid during the year	778,857	1,166,196	2,532,997	4,478,050	NIL	NIL	NIL	NIL
Balance carried forward	3,325,549	4,981,852	12,151,352	20,458,752	3,811,759	5,709,077	12,871,285	22,392,121

Total contributions to the Fund had decreased by Rs.355,729 or 12.26 per cent in the year 2011 when compared with the year 2010 and a sum of Rs: 4,478,050 had been paid to the members in the year 2011 when compared with the year 2010.

3. Operating Inefficiencies

Following observations are made.

- (a) The Bank had invested a sum of Rs. 5,762,473 in 04 instances in fixed deposits at lower rate of interest for the period of two to three years. Rate of interest had been increased rapidly since end of the year 2011. If funds were invested in shorter period like 3 months fixed deposit, the Fund could have been earned additional minimum interest of 3%. Details were as follows.

<u>FD NOS</u>	<u>Period</u>	<u>Amount Rs</u>	<u>Interest Rate</u>	<u>Period</u>
12T/2098	16.11.2011-15.11.2013	1,130,356	9%	Two years
	13.08.2011-13.08.2014	517,591	10%	Three years
24T/17307	27.12.2011-27.12.2013	974,943	10.50%	Two years
36T/3151	29.09.2011-28.09.2013	<u>3,139,582</u>	9%	Two years
		<u>5,762,473</u>		

- (b) The Fund had sustained losses of the total interest due to withdraw the fixed deposits before the maturity dates with regard to the following investments.

<u>Period of deposits</u>	<u>Amount Rs.</u>	<u>Interest Rate</u>	<u>Date of Withdrawal</u>	<u>Days held in 2011</u>
15.04.2011-15.07.2011	184,519.17	7%	09.06.2011	52
03.05.2011-31.12.2011	328,915.64	10%	09.06.2011	36
07.05.2011-07.05.2013	1,224,000.00	10%	09.06.2011	32
12.05.2011-12.05.2012	654,000.00	10%	09.06.2011	29

- (c) The EPF contributions and other receipts had been deposited in current account of the Fund. The balance at the range of Rs:128,000 to Rs; 1,000,000 was held in this current account during the year under review without earning any interest. The Fund could have been earned 7% interest equal to Rs; 28,000, if these deposits could have been invested on seven days call deposits or short term fixed deposits at that time.