

State Mortgage and Investment Bank Provident Fund – “B” 2013.

The audit of financial statements of the State Mortgage and Investment Bank Provident Fund – “B” for the year ended 31 December 2013 comprising the balance sheet as at 31 December 2013 and the profit and loss account, statement of changes in equity 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 9 of Part I ; Section (1) General of the Extraordinary Gazette No. 38/19 dated 01 June 1979 of the Democratic Socialist Republic of Sri Lanka.

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 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 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 qualified 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 effect 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-“ B” as at 31 December 2013 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 Deficiencies

The following accounting deficiencies were observed in audit.

- (a) The fixed deposits amounting Rs.4,285,426 for the year under review had been understated by Rs. 187,187 due to non-capitalization of interest receivable at the maturity.
- (b) Interest on fixed deposits and interest receivables for the year under review had been understated and overstated by Rs.119,692 and Rs.80,653 respectively due to erroneous computation.
- (c) A difference of Rs.11,140,713 had been observed between the balances of the individual funds shown in the financial statements of Provident Fund “B” and “A” and the corresponding balances shown in the financial statements of the State Mortgage and Investment Bank.

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

According to the Rule No. 04 of the Extraordinary Gazette, No.38/19 of 01 June 1979 of the Democratic Socialist Republic of Sri Lanka, all monies standing to the credit of members should be invested in debentures of any Government bank or Government securities. However, all these monies had been invested in the fixed deposits of the State Mortgage and Investment Bank.

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. 840,061 as compared with the corresponding surplus of Rs. 2,299,550 in the preceding year, thus showing a decrease of Rs.1,459,489 or 63.4 per cent in the financial results. The main reasons for this negative trend were the decrease of interest income on investments by Rs.1,048,196 and supplementary contribution of the Bank by Rs.514,514 during the year under review.

3.2 Operating Review

3.2.1 Analytical Financial Review

According to the information made available, the operating results of the Fund for the previous 03 years and for the year under review are summarized and shown below.

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Interest Income on Fixed Deposits, Savings Accounts and Loans to Members	343,215	1,391,412	1,742,517	2,065,612
Supplementary Contribution Received from the Bank	<u>580,852</u>	<u>1,095,370</u>	<u>251,853</u>	<u>268,028</u>
Total Income	924,067	2,486,782	1,994,370	2,333,640
Expenditure	<u>(84,006)</u>	<u>(187,232)</u>	<u>(181,306)</u>	<u>(212,149)</u>
Surplus/(Deficit) for the year	<u>840,061</u>	<u>2,299,550</u>	<u>1,813,064</u>	<u>2,121,491</u>

The following observations are made in this connection.

- a) The interest income on fixed deposits and saving accounts had decreased from Rs. 1,976,387 to Rs. 343,215 or 82.6 per cent during the period 2010-2013 as a result of retiring members from the Fund.
- b) The interest income on loan to members had increased from Rs.89,225 to Rs. 110,860 or 24.4 per cent during the period 2010-2012. However, no any interest income had been earned on loans to members during the year under review due to settlement of existing loans.
- c) The supplementary contribution received from the Bank had decreased from Rs. 1,095,370 to Rs. 580,852 or 46.9 per cent as compared with the previous year while total interest credited to member accounts had decreased significantly from Rs.2,299,550 to Rs.840,061 or 63.4 per cent during the period 2012-2013.

3.2.2 Members Contribution

According to the information made available for audit, the contributions and interest received to the Fund for the year under review and for the preceding year are summarized and given below.

	2013				2012			
	Members' Contribution	Bank's Contribution	Interest Credited	Total	Members' Contribution	Bank's Contribution	Interest Credited	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01 January	996,709	1,494,889	4,224,720	6,716,318	3,325,548	4,981,852	12,151,352	20,458,752
<u>Add</u>								
Receipts during the year	<u>93,184</u>	<u>139,776</u>	<u>840,061</u>	<u>1,073,021</u>	<u>231,543</u>	<u>347,313</u>	<u>2,271,478</u>	<u>2,850,334</u>
Total	1,089,893	1,634,665	5,064,781	7,789,339	3,557,091	5,329,165	14,422,830	23,309,086
<u>Less</u>								
Repayment made to members	-	-	-	-	(2,560,382)	(3,834,276)	(10,198,110)	(16,592,768)
Interest excessively credited	<u>-</u>	<u>-</u>	<u>(30,644)</u>	<u>(30,644)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance as at 31 December	<u>1,089,893</u>	<u>1,634,665</u>	<u>5,034,137</u>	<u>7,758,695</u>	<u>996,709</u>	<u>1,494,889</u>	<u>4,224,720</u>	<u>6,716,318</u>

Total contributions to the Fund had decreased by Rs. 1,777,313 or 62.3 per cent in the year 2013 when compared with that of the year 2012 and no payment had been made to the members during the year under review.

3.2.3 Loans Granted to Members

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

	<u>For the year ended</u>	
	<u>2013</u>	<u>2012</u>
	Rs.	Rs.
Balance as at 01 January	7,274	892,467
<u>Add</u>		
Loans granted to members during the year	<u>-</u>	<u>350,000</u>
	7,274	1,242,467
<u>Less</u>		
Recoveries during the year	<u>-</u>	<u>(1,235,192)</u>
Balance as at 31 December	<u>7,274</u>	<u>7,274</u>

No any loans had been granted to the members during the year under review and all loans granted in previous years had been settled during the year under review.

4. Accountability and Good Governance

4.1 Delays in the Presentation of Financial Statements

According to the Paragraph 04.3 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 on 08 July 2014.

4.2 Establishment, Authorities and Purposes of the Fund

The State Mortgage and Investment Bank Provident Fund –“B” had been established in terms of Section 85 (2) of the Ceylon State Mortgage and Investment Bank Law, No.13 of 1975. Accordingly all monthly paid employees of the Agriculture and Industrial Credit Corporation of Ceylon, who are deemed to be employees of the Ceylon State Mortgage and Investment Bank and have accepted employment in the State Mortgage and Investment Bank shall, as a condition of their employment by Bank, become members of the Provident Fund “B” and the Fund shall be administered by a Board of Trustees consisting of one Director who shall be appointed annually by the Board of Directors of the Bank, General Manager, or the person for the time being acting for him and a member who shall be elected annually by the members of the Fund.