

NSB Fund Management Company Limited – 2017

The audit of financial statements of the NSB Fund Management Company Limited (“the Company”) for the year ended 31 December 2017, comprising the Statement of Financial Position as at 31 December 2017 and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows 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(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

This report is issued in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Board’s Responsibility for the Financial Statements

Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal controls as the management determine 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. 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 risk 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 Company’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 Company’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.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the company as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Report on Other legal and regulatory requirements

As required by Section 163(2) of the Companies Act No. 7 of 2007, I state the following:

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In my opinion:
 - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examinations, proper accounting records have been kept by the Company,
 - The financial statements of the Company, comply with the requirements of Section 151 of the Company Act No. 7 of 2007.

2.3 Accounts Receivable

2.3.1 Receivables

The following observation is made.

The balance appearing in the financial statements as receivable from General Treasury amounting to Rs. 246,939,587 was not confirmed by General Treasury as at 31 December 2017. Further this amount had not been recovered until the date of audit.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the operations of the Company for the year ended 31 December 2017, had resulted in a pre-tax net profit of Rs. 538,843,262 as compared with the corresponding pre-tax net profit of Rs. 109,141,803 in the preceding year thus indicating an improvement of Rs. 429,701,459 in the financial results for the year under review.

The increase of Net Gain from Financial Instruments at Fair Value through Profit and Loss by Rs. 411,958,928 or 422 per cent was the main reason attributed for this improvement in financial result.

3.2 Analytical Financial Review

3.2.1 Significant Accounting Ratios

According to the information made available certain important ratios of the Company for the year under review and the preceding year together with sector ratios are given below.

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Type of Ratio	**	Company	
	Sector 2017	2017	2016
<u>Capital Adequacy Ratio</u>			
Risk Weighted Capital Adequacy (percentage) (Minimum 10per cent)	56	22	25
<u>Profitability Ratios</u>			
Return on Average Assets (percentage)	5	5	1
Return on Average Equity (percentage)	13	20	5
Profit Before Tax (Rs.Mn)	15,100	539	109
Profit After Tax (Rs. Mn)	13,400	363	79
Core Capital (minimum core capital Rs. 1,000 Mn)		1945	1,691

Sector ratios are published by Central Bank of Sri Lanka.

Following observations are made.

- (a) Risk weighted Capital Adequacy Ratio of the Company was less than sector ratio, It had decreased by 12 per cent against the year 2016.
- (b) Return on Average Assets ratio and Return on Average Equity Ratio of the Company had increased up to 5 per cent and 20 per cent respectively in the year 2017 from 1 per cent and 5 per cent in the year 2016. Further, ROA ratio is same to the industry ratio but ROE ratio is higher than industry ratio for the year under review.
- (c) The Core capital of the Company had increased by 15 per cent from Rs. 1,691 million in the year 2016 to Rs. 1,945 million in the year 2017. It was above the minimum core capital requirement of Rs. 1,000 million. "The CEO of the company informed me that the reason for increased the core capital was the company had declared the bonus shares".

4. Operating Review

4.1 Planning

The Company had not prepared a corporate plan or action plan for the year 2017 as per Chapter 5 of the Public Enterprise Circular No. PED/12 of 02 June 2003.

4.2 Market Share

According to the information made available, the total assets of the company was Rs.9,159 million and the total assets of the industry was Rs.337,200 million in the year under review compared with the previous year it was Rs.10,862 million and Rs.264,500 million. The asset based market share of the Company had increased from 3 per cent to 4 per cent as compared with year 2016. This was mainly due to the decrease of investment in Government securities in the year 2017 by 20 per cent against the year 2016.

5. Accountability and Good Governance

5.1. Internal Audit

Separate audit division had not been established in the Company and Internal audit division of National Savings Bank functions as the internal auditor for NSB Fund Management Company to have a cost effective audit function.

6. Systems and Control

Deficiencies observed in systems and controls during the course of the audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

Areas of control	Observation
----- Planning	----- The company is required to prepare an Action Plan in order to achieve its main objectives within the target period.