

Sri Lanka Savings Bank Limited - 2020

1.1 Opinion

The audit of the financial statements of the Sri Lanka Savings Bank Limited (“Bank”) for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statement section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Bank is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Bank.

1.4 Auditor’s Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an

audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Bank, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Bank has complied with applicable written law, or other general or special directions issued by the governing body of the Bank ;
- Whether the Bank has performed according to its powers, functions and duties; and

- Whether the resources of the Bank had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Unreconciled Control Accounts or Records

Audit Issue				Management Comments	Recommendations
Item	As per Financial Statements-	As per verification report	Difference		
	(Rs.)	(Rs.)	(Rs.)		
(i) Value of stationary stock as per the physical verification was different with the value taken to the financial statements as at the end of the year.				Agreed. The physical verification of stationery stocks will be done with the relevant Department and error will be rectified with immediate effect.	Internal controls related to the maintaining stocks should be conducted satisfactorily.
Inventory	1,349,941	1,462,352	112,411		
(ii) Balances as per financial statements were different with the balances in the application system of following loan categories.				Due to system error, termination entry had not been posted correctly into HP rent receivable AC. This error was identified and rectified in year 2021. Also due to system error, receipt entry had not been posted correctly into the leasing rent receivable AC. But, this had been correctly processed in the Application level. This difference identified & rectified in year 2021.	Reconciliation between application system and general ledger should be done by the bank periodically.
Loan Type	Balance as per Final Accounts	Balance as per application	Difference		
	Rs.	Rs.	Rs.		
Hire purchase	109,184,202	109,154,922	29,280		
Lease	412,380,393	412,265,495	114,898		
Pawning	38,606,533	39,105,049	(498,515)		

1.5.2 Suspense Accounts

Audit Issue -----	Management Comments -----	Recommendation -----																				
(i) An unidentified balance of Rs. 258,700 had been included in the “deposit’s payable to PSDB customers (margin) account.	Noted.	Process of identifying balances should be strengthened.																				
(ii) Followings unidentified balances had been included under other liabilities without settling.	These balances are remaining unchanged over a long period of time. Suspense Ac unidentified bank deposit amounting to Rs. 4,657,371/- is unidentified customer direct bank deposit. Advance collection – MF amounting to Rs. 9,039,400/- is an advance payment made by a Partner Organization. The current balance as at 30.09.2021 is Rs. 3,210,339/-	Process of identifying balances should be strengthened.																				
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(iii) Following loans and advances had been categorized as Non-Performing Loans in the system. However as per the management’s explanation those loans were settled and manually closed. No evidences were available regarding the settlements.	These facilities were not granted physically and run as test at the implementation of new system. This has been manually closed by the system provider as it was created for testing purposes only.	These types of balances should not be included in the live system.																				
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1.5.3 Inappropriate Valuation or Estimation

Audit Issue	Management Comments	Recommendation																								
(i) As per the financial statements, following assets were fully depreciated but still in using. No actions had been taken to revalue them.	Some of the assets mentioned are transferred to the Bank, at the vesting of PSDB and NDTF and long-standing from the inception. The motor vehicles has been revalued only for the insurance purposes but not adjusted in the financial statements. The other fixed assets have not been revalued as it will be a cost to the Bank. As per the Accounting Standards this has been disclosed in the financial statements. At the time of disposing, a proper revaluation process adopts to dispose the items.	As per paragraph 34 of LKAS 16, it is necessary to revalue assets in the period of 3 to 5 years.																								
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1.5.4 Going Concern of the Organization

Audit Issue	Management Comments	Recommendations
As per the Letter No: 02/19/319/0001/004 dated 05 January 2021 of Director of Bank Supervision of Central Bank of Sri Lanka, the bank is going to liquidate or merge with National Savings Bank (NSB) by 30 September 2021. However,	The Director - Bank Supervision of Central Bank of Sri Lanka has informed by their letter dated 05th January, 2021 that the Monetary Board of the Central Bank of Sri Lanka has taken a policy decision to fully merge the SLSB with the NSB. Accordingly, a resolution that has been adopted by the Monetary Board directing SLSB refraining from granting any new loans, accepting deposits, recruiting new staff and entering in to new contracts with any party. Hence, the said policy decision has been taken after the balance sheet date i.e 31 st December 2020 but this event has been reported under Note No.39-Events after the Reporting Period.	If any event after the balance sheet date which affects to going concern of the business, the bank should disclose under going concern policy. In addition, management should inform about the said risk of discontinuation in the management representation.
i. No any disclosure has been made under the topic of going concern in the financial statements for the year ended 31 December 2020.		
ii. Further according to the management representation, it was stated that “there is no material uncertainty exists related to events or conditions that may cast significant doubt on the Board’s ability to continue as a going concern”.	The National Savings Bank, the Parent of SLSB has informed the Central Bank that action will be taken to fully merge the SLSB with NSB. And also NSB has requested CBSL to allow SLSB to continue its business operations until the merger process is completed.	

1.5.5 Documentary Evidences not Made Available for Audit

Audit Issue -----	Management Comments -----	Recommendations -----
Balances of Discount paid in advance and Deposit Fund on behalf of PSDB amounted to Rs.13,376,694 and Rs.7,098,200 respectively had been fully impaired. However, no evidences were available to verify those balances.	There are two appeal cases pending before the Supreme Court regarding an issue on Gratuity payments of PSDB employees of which total case value is Rs. 7,098,200. The case numbers of the matters pending before the Supreme Court as follows: <ul style="list-style-type: none"> • SC/HC/LA/01/2017 • SC/HC/LA/02/2017 	Evidences and breakups should be maintained for every balance in the balance sheet.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue -----	Management Comments -----	Recommendations -----
(i) No actions had been taken for recover cash shortages totaling to Rs.48,498 from the responsible staff which was prevails from previous years.	Agreed and will be rectified in year 2021.	Internal control procedure should be established to avoid this kind of situation.
(ii) Receivable balances totaling Rs.2,866,959 were outstanding since several years without recovering. Stamp duty receivable balance of Rs.1,999,000 was included in the above balance.	Agreed and will be Rectified in year 2021. The stamp duty receivable of Rs. 1,999,000/- has been paid at the transfer of a PSDB land vested to SLSB. This could be recovered at the disposal of the said land. Other items would be forwarded to Board of Directors to seek their instructions to take necessary action.	Actions should be taken to settle the outstanding balances.

1.6.2 Payables

----- Audit Issue -----	Management Comments -----	Recommendations -----																								
<p>(i) Following other liability balances were outstanding for more than one year without clearing.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;"></td> <td style="text-align: right;">Rs.</td> <td></td> </tr> <tr> <td>Tax payable - penalty</td> <td style="text-align: right;">196,424,540</td> <td></td> </tr> <tr> <td>Error correction savings</td> <td style="text-align: right;">1,975,871</td> <td></td> </tr> <tr> <td>Receivable - staff</td> <td style="text-align: right;">268,358</td> <td></td> </tr> <tr> <td>Receivable – CRIB charges</td> <td style="text-align: right;">32,650</td> <td></td> </tr> <tr> <td>personal loans</td> <td></td> <td></td> </tr> <tr> <td>Maturity capital suspense account - FD</td> <td style="text-align: right;">267,853</td> <td></td> </tr> <tr> <td>Loan security fund – PrajaDiriya</td> <td style="text-align: right;">67,350</td> <td></td> </tr> </table>		Rs.		Tax payable - penalty	196,424,540		Error correction savings	1,975,871		Receivable - staff	268,358		Receivable – CRIB charges	32,650		personal loans			Maturity capital suspense account - FD	267,853		Loan security fund – PrajaDiriya	67,350		<p><u>Tax payable-penalty</u> - out of Rs.196,424,540.00, penalty amount of Rs.24,536,137.29 has already been write off by Inland Revenue Department as at 30.09.2021.The penalty amount of Rs.78,028,303.00 related to VAT on FS and NBT on FS will be waved off by IRD after making final payment on December 2021 as per payment plan approved by Board of Directors of the bank and agreed by the Commissioner General of Inland Revenue Department.</p>	<p>Outstanding balances should be reconciled and cleared within reasonable period.</p>
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<p>(ii) As at 31 December 2020, there were ESC payable balance of Rs. 310,520 and ESC receivable balance of Rs. 2,507 in the financials.</p>	<p>These balances will be rectified in Year 2021 after discussing with Inland Revenue Department.</p>	<p>These balances should be rectified within reasonable time.</p>																								
<p>(iii) Abnormal minus balance of Rs.109,885 was included in the savings standing order control account under the payables at the end of the year 2020.</p>	<p>Agreed and will be Rectified in year 2021.</p>	<p>Bank should clear these abnormal balances.</p>																								
<p>(iv) An amount of Rs. 1,765,404 deducted from employees for their pension fund during the year 2008 was stated under payable balances. However, the Bank had not taken any actions to pay such money to those employees even after their retirement.</p>	<p>As there is no proper source to identify how much money has been deducted from which employee during the year 2008, it was decided to transfer the deducted amount to proposed pension fund of the permanent employees.</p>	<p>Keep proper records and documents for pension funds in future.</p>																								

1.7 IT General Controls

Audit Issue	Management Comments	Recommendations
(i) The bank has maintained backups in People's Bank Site in Thimbirigasyaya. It is less around 3 km and it is not an acceptable distance of backup place from the main system.	Noted. As we do not have a DR site at the moment, we are planning to implement it ASAP after getting the approval to commence businesses from CBSL. Further we already started implementing a temporary DR site at our own building at Gregory's Road. Also, we are keeping daily backups at Peoples Bank- Thimbirigasyaya branch safety locker.	Backup should be located beyond the reasonable distance.
(ii) There was no Disaster Recovery (DR) site for the Bank.	Accepted and informed to BOD also. Due to merger decision, BOD instructed to build a temporary DR site at Gregory Road building and already started that implementation and it is in procurement stage as of now.	Bank should have Disaster Recovery (DR) at initial stage.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 275,056,231 and the corresponding profit in the preceding year amounted to Rs. 447,816,707. Therefore, a deterioration amounting to Rs. 172,760,476 of the financial result was observed. The reasons for the deterioration are decreased interest income due to falling in market interest rates by 23 percent and decreased other operating income (net) by 40 percent as there was penalty waiving off amount off Rs. 125.8 Million in 2019.

2.2 Trend Analysis of major Income and Expenditure Items

Analysis of major income and expenditure items of the year under review compared with the preceding year with the percentage of increase or decrease are given below.

Description	Variance (Rs.)	Variance %	Reasons for Variance
Interest Income	(230,336,435)	(23)	Falling in market interest rates
Interest Expense	(19,493,659)	(21)	falling in market interest rates
Fee & Commission	2,473,262	149	Increase the fee and income charges

Income			for loans and advances and loan disbursement
Other Operating Income	(53,877,016)	(40)	There was penalty waiving off amount off Rs. 125.8 Mn in 2019.
Impairment (charges)/ Reversal	(64,208,945)	1,278	There was an impairment reversal in previous year and financial assets at amortized cost – loans and advances had an impairment charge of Rs. 57,399,184.

2.3 Ratio Analysis

According to the information made available, certain important ratios of the Bank for the year under review and preceding year are given below.

Description	Sector Ratio* (%)	SLSBL	
		2020 (%)	2019 (%)
Profitability Ratios			
Return on Equity (ROE)	16.7	4.8	8.68
Return on Assets (ROA)	1.3	4.62	7.09
Net Interest Margin	3.4	7.94	10.34
Capital Adequacy Ratios			
Capital Adequacy- Tier I (Minimum 5 percent)		82.04	82.81
Asset Quality Ratio			
Gross Non-Performing Ratio		20.73	19.82
Liquidity			
Liquid Asset Ratio		511.32	514.15

* Sector ratios were extracted from the information published by CBSL.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comments	Recommendation
(i) No proper division of labour in the bank. Eg: Staff in the finance division is handling Hire purchase and lease activities for a long time.	During this period Bank has operated deploying limited staff (107) until finalization of the merger with NSB and business plan with the aim of curtail unnecessary cost. Hence, few of seniors and other staff had to overlook other departments / business units to ensure smooth operation of the Bank key functions as a temporarily arrangement.	To prevent fraudulent activities, bank should maintain division of labour.

3.2 Operational Inefficiencies

Audit Issue		Management Comments				Recommendation
		As at 31.12.2020		31.09.2021		
Facility Name	Total Granted	Total	NPL	Total	NPL	
by product	amount	outstanding	%	outstanding	ratio	
(i) As at 31 st December 2020 the total outstanding loans was Rs.3.705 million. Out of that Rs.1620 million or 43.7 percent were categorized as non performing loans (NPL). The following non performing loans show more than 40 percent outstanding from the total granted amount as at 30 September 2021.						The referred type of loan disbursements were discontinued few years back and currently recovering only the due loans. Therefore, NPL ratio of each products are been increased. With the vesting of PSDB Portfolio, 100% provision been made and during the period 01.01.021 to 30.11.2021 a sum of Rs. 31.84 Mn including Rs. 11.87 Mn has been recovered.
Door to door	15,654,792	8,719,517	70	6,081,746	72	Out of the NPL amount of Rs. 1449.11Mn, Rs. 993.71 Mn is NPLs Pramuka Savings & Development Bank (PSDP). The whole portfolio of PSDB had been in NPL at the time of vesting. The NPL generated from the loans granted by SLSB is Rs. 455.4Mn. Further, Central Bank has refrained the bank from granting new loans since 5 th January 2021 and loan portfolio has decreased by Rs. 590.25Mn. The depletion of loan portfolio had been a major contribution fact to the increase of NPL ratio despite the fact that the Bank has reduced NPL volume by Rs. 132 Mn as at 30 th November 2021 compared to 31 st December 2020 NPL volume.
ICL	236,272,040	165,552,957	42	69,856,461	46	
MFD	17,033,870	11,609,440	100	11,609,440	100	
Praja diriya	60,440,000	22,268,507	92	20,435,358	95	
REPPIA	60,075,000	53,171,764	100	53,171,764	100	
Swashakthi	9,600,000	4,576,399	86	3,946,518	91	
Vehicle	2,260,000	2,205,993	100	2,205,993	100	
Micro finance						
- bulk loans	1,790,961,743	839,813,694	40	333,565,569	49	
PSDB	N/A	998,605,882	100	998,605,882	100	
(ii) Following non performing loans which were arrears over 540 days show a higher percentage of arrears compared with the total loan granted.						<u>Door to door, Swashakthi, Vehicle, PrajaDiriya, Microfinance Development</u> Proper recovery procedures should be maintained by

Loan Type	Arrears more than 540 days	Percentage of arrears from total loan outstanding (%)
-----	-----	-----
	Rs.	
Door to door	5,219,329	66
Swashakthi	2,762,738	63
Vehicle	1,562,832	100
REPPA	47,442,189	100
Prajadiriya	16,235,893	79
Micro finance development	9,419,836	100
Micro Finance	266,629,257	33

Loans- The bank has stopped granting these products as new loans and recoveries/litigations are in process. the bank.

REPPA—These facilities have been granted to rehabilitate LTTE cadre with the government instructions. Recoveries are being followed up under these circumstances. Facilities have been granted in 2012-2013.