

National Savings Bank - 2020

1.1 Opinion

The audit of the financial statements of National Savings Bank (the “Bank”) and the Consolidated Financial Statements of the Bank and its Subsidiaries (the “Group”) 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 and the Finance Act, No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group 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 Statements 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 Group’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 Group or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Bank and Group are 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 Group.

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 scepticism 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 and Group'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 Group'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 Group 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 Internal Control over the preparation of financial statements.

Audit Issue	Management Comment	Recommendation
<p>There is a high risk of manual intervention in the preparation of financial statements. Two main trial balances are being prepared separately, Branch TB and Head office TB. Trial balances of all branches are abstracted from CBOS system and convert it to MS excel spread sheet format and create single branch TB. Trial balances of head office divisions are taken separately and amalgamated them in to a single Head office TB. Finally, by using both TB's, Financial statements are being prepared.</p>	<p>Currently, Branch General Ledger and Head Office General Ledger are maintained as separate G/L systems. However, necessary controls are in place to ensure the capturing and recording of the transactions to individual G/L systems, when there is a manual intervention for the transactions. All the trial balances are generated through the G/L systems and MS Excel Spread Sheets are used to prepare the Financial Statements (FS) of the Bank and relevant controls are in place to ensure the accuracy of the FS. Further, the implementation of Core Banking solution has already started to overcome the manual intervention of the current system.</p>	<p>Bank should minimize manual intervention when preparing financial statements.</p>

1.5.2 Unreconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
<p>a. Even though the balance of Interbranch control account should be zero, it has a balance of Rs.218,733,468 as at 31 December 2020 which includes material balances of head office our accounts, branch current accounts, and ATM settlement accounts.</p>	<p>Due to the transactions in transit as at the date of financial reporting, there can be debit or credit balances in the Interbranch Accounts, and this will be cleared subsequently.</p>	<p>Reconciliation should be done continuously.</p>

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
<p>1. Receivable amount to the Bank from fraudulent withdrawals as at 31 December 2020 was Rs.134.4 million. Out of that, a sum of Rs.103,963,153 was outstanding for more than 5 years. Further the there is a balance amounting to Rs.77,292,906 which had not been recovered from insurance or other recovering method.</p>	<p>Current position of the receivable number of fraudulent withdrawals as at 30/09/2021 was Rs. 87.6 Mn and adequate provisions have been made for possible losses.</p> <p>Administration Division is continuously following up fraudulent withdrawal account and necessary actions are taken to clear balances.</p> <p>Further, in the year 2020 and 2021, ex gratia payment of Rs.15 million has been received for frauds outstanding over 5 years in addition to other insurance claims.</p> <p>We received total insurance claim amount of Rs.42 million in the year 2020 and Rs.2 million in the year 2021.</p> <p>Further, the bank has strengthened internal control system by introducing circulars, strict supervisions, and performing internal audits.</p>	<p>Disciplinary actions relating to the frauds done by staff should be expedite and internal control system should be strengthen to minimize frauds.</p>

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
<p>National Savings Bank Act, No.30 of 1971 i) Section 47</p>	<p>Deposits which are inoperative over 10 years should transfer to the “Unclaimed Deposits Reserves” account. However it</p>	<p>Bank has transferred a sum of Rs.1,521Mn lying in the credit of dormant accounts to the “Unclaimed Deposits</p>	<p>Bank should comply with the provision in the NSB act.</p>

was observed that Rs.836.48 million were remained as dormant in financial statements as at 31 December 2020 without transferring to the said reserve. Reserves” accounts in the year 2020. Due to the higher percentage of subsequent payments are made to the customers periodically (annually). The remaining balance will be considered for the next year transfer.

- ii) Section 47(4) Payments made by the Bank to customers through the Unclaimed Deosit Reserves Account should be reimbursed from the consolidated fund of General Treasury. However, the bank had not reimbursed an amount of Rs.703.13 million which had paid to customers during the period from 2000-2020. Requests have already been made to the Treasury and this is being followed. Bank should comply with the provision in the NSB act.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a net profit of Rs.10,107 million and the corresponding net profit of Rs.6,381 million in the preceding year. Therefore, an improvement amounting to Rs.3,727 million of 58 percent of the financial result was observed. The reasons for the improvement were increase of net interest income, net fee and commission income, net gain from derecognition of financial assets compared to previous year.

2.2 Trend Analysis of major Income and Expenditure items

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

Description	Variance Amount Increase/(Decrease) (Rs'000)	Variance %	Reason for the Variance
Net Interest Income	6,058,167	21	Increase of interest income from debt and other instrument by Rs.12,254 million , decreased interest expenses on due to bank and due to another borrower by Rs. 4,023 million and Rs. 4,567 million respectively in 2020

Net fees and commission income	1,426,687	126	Increase of fees and income generated from loan related services.
Net other operating income	385,188	(91)	Gain on revaluation of foreign exchange had rapidly decreased by Rs.107 million and dividend income had increased by Rs.202 million.
Impairment Charges for loan and other losses	4,297,780	782	Impairment provision for the loans and advance amount had been increased by 61 per cent or Rs.4,304 million compared with previous year.
Total expenses including VAT,NBT, DRL	(1619,847)	(8)	Due to elimination of NBT and DRL liabilities, those expenses had been reduced by Rs. 2,151 million in 2020.

2.3 Ratio Analysis

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

Description	Sector Ratio *	Bank	
		2020	2019
Profitability Ratios			
Return on Equity (ROE)	16.7	20.67	14.34
Return on Assets (ROA)	1.3	1.24	0.95
Interest Margin	3.4	2.77	2.63
Assets Quality Ratio			
Gross Nonperforming Advances (NPL)	6.8	2.79	1.57
Capital Adequacy Ratios			
Basel 111 – Tier 1 (Minimum 8%)	11.8	13.65	13.49
Basel 111 – Total (Minimum 12%)	14.8	16.45	15.82
Liquidity Assets Ratio	60.4	69.1	60.2

* Sector ratios were extracted from the information published by Central Bank of Sri Lanka. The following observations are made in this regard.

- (i) The return on Equity (ROE) ratio and Return on Asset Ratio (ROA) of the bank had been increased by 6.33 per cent and 0.29 per cent respectively in 2020 as compared with previous year.

- (ii) The Liquidity Assets Ratio also had increased by 8.9 per cent in 2020 when compared with the previous year. Further, the ratio is above the industry average of 60.4 per cent.
- (iii) Total Capital Adequacy Ratio of the Bank reported as 16.45percent as at 31 December 2020 which is slightly higher than the minimum statutory requirement of 14.8 per cent.
- (iv) Net interest margin of the Bank in 2020 had increased by 0.13 per cent as compared with the previous year. However, interest margin is less than the industry average interest margin of 3.4 per cent.

3. Operational Review

3.1 Uneconomical Transactions

Audit Issue

A sum of Rs.35.23 million had been spent for professional services obtained for construction of 18 storied building in 2008. However, the said construction work had been abandoned and expenditure incurred thereon had become a fruitless expenditure and this balance is stated in the financial statements as at 31 December 2020 under advance.

Management Comment

The project for 18 storied building has been initiated with the outside professional institution including the Central Engineering Consultancy Bureau (CECB) and this capital expenditure represents the payment made to them for their professional services. The possibility of obtaining the adjoining 106 perch land on long term lease is being discussed with UDA to plan a major development at the Head Office Premises. The possibility of getting the services of CECB will be looked into and accordingly, service fee for the newly prepared project will be discussed and negotiated with them for suitable reduction, if they will be selected for the project. Further a provision of Rs. 35.23Mn has already been made as at 31.12.2020 for any possible losses.

Recommendation

Bank should take immediate actions to minimize loss to the bank through this transaction.

3.2 Management Inefficiencies

Audit Issue

- 01. According to the inquiry made by the internal audit division in January 2021 from 258 branches, 390 loan files to the outstanding value

Management Comment

Recommendation

of Rs.195,365,919 had misplaced.

- a. Out of those misplaced files, 100 files to the loan value of Rs. 29,846,707 were non-performing loan files. Said 100 misplaced loan files in non-performing category consists of 02 legal files, 38 housing loan files and 60 personal loan files to the value of Rs.1,506,770, Rs.19,032,365 and Rs. 9,307,572 respectively.
- b. Actions against responsible parties had not been taken by the Bank regarding missing files up to the reporting date.
- Instructions have already been given to the Branch Managers / Regional Managers to carry out physical verification of loan files in their branches biannually, on or around 30th June & 31st December biannually.
- In addition to that, further instructions have also been issued vide the DGM (Operations)'s Instruction Letter No. 469/2018 and Senior Deputy General Manager's Instruction Letter No. 535/2019 to branches about the importance of safety and security of these loan files and adhering to the relevant instructions.
- If there are any lapses in the safety and security and the significance of the loan files, actions will be taken to rectify the situation by educating the branch staff about the mechanism that will be in place and the procedures to be followed in the staff training sessions to be conducted for the year 2022.
- The lapses and weaknesses of the current internal controlling system will be identified via the Internal Audit Division of the bank and based on their recommendations; a proper mechanism shall be devised in line with the implementation of the proposed Core Banking system.
- Since there was a government restriction on reporting for the duty by the staff members in the face of COVID 19 pandemic of
- Internal control procedures should be strengthened related to maintaining loan files.

the last few months there may be an inordinate delay in the search operations of the missing files. However, the staff members have now vigorously engaged themselves in search operations of these 6 missing files.

02. According to the circular number 739/2009, out of 21 days privilege leave, 7 days leave should be compulsory availed of at a stretch. Employees who avail of such 7 days privilege leave at a stretch will be permitted to cash another 7 days of his privilege leave.

However, newly issued circular number 1949/2020 of General manager dated 21 August 2020 allowed to utilize 7 days compulsory leave of 2020 in the following years of 2021 and 2022 at stretch or on staggered basis and allowed that employee who had not taken compulsory 7 days leave entitle to encash the maximum 7 days of remaining privilege leave.

Such kind of decision cannot be justifiable specially in a situation (Covid 19 pandemic period) like this since most of officers were not reported to the work.

During the year 2020, the country was under lockdown for nearly 03 months due to the Covid 19 pandemic. Further employees reported for duty on roster basis during the latter part of the year while working from home. In addition, pregnant staff and the staff with critical illnesses were also requested to work from home due to the risk of Covid 19. As a result, employees could not report for duty on regular basis and their leave entitlements remain unutilized.

Moreover, if the bank had sent the employees on 7 days compulsory leave in year 2020 itself, it would have adversely affected the operations of the bank as there was a backlog of work due to the travel restrictions and employees working on roster basis.

Since, the employees were unable to report for duty, due to unavoidable circumstances resulted from the Covid 19 pandemic which had affected the entire country, the Management has decided to allow the employees to carry forward their seven days entitlement until 31.12.2022. This decision has been taken considering the practices adopted by other banks

Purpose of the compulsory leave will not be achieved without taking those 7 days leave at a stretch. And carry forward that leave to next year will affect to conducting daily operation of the bank. Hence before taking this kind of decision, management should pay their attention to taking staff contribution to bank.

as well.

3.3 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
1. a. Out of the 259 branches, 7 were identified as loss-making branches during the year under review. Out of them, Kataragama, Katuwana and Weliweriya branches had opened during the year 2020. Deiyandara, Potuvil and Makola branches which also had made losses in 2020. However, that loss was decreased compared with the previous year. The loss of Akkareipattu branch had increased by Rs. 141,184 compared with the previous year.	Generally, it takes about 3 years to make profit after opening a branch. Accordingly, Katharagama, Katuwana & Weliweriya branches have not exceeded this 3-year period. However, the losses of Kataragama & Katuwana branches have been decreased as at 30.11.2021 and all the loss-making branches will be closely monitored. Deiyndara, Makola and Akkaraipattu, which were among loss making branches in 2020 have made profits as of 30.11.2021.	Loss making branches should be closely monitored.
b. Even though the Credit division of the bank had made a profit of Rs.48,706,065 in the year under review it is 92.8 per cent drop when compared with the previous year profit of Rs.677,808,076.	The drop in the profit of the Credit Division is due to the decrease in Interest Income. This is due to the lower market interest rates prevailing in 2020. In addition, the interest cost charged to the Credit Division (Head Office interest rate) remain unchanged for both years.	Bank should keep the profit at an acceptable level by conducting effective recovery process and loan granting process.
2. The Bank has paid a service charge to Post Master General (PMG) yearly since 1983 for their services. Currently, the service charge is fixed on the basis of the 2013 base figure and the same is adjusted for annual inflation according to the Colombo Consumers Price Index for the year. The service charge paid to PMG has been increased from 128 million in 2016 to 160.4 million in 2020.	Annual service charge is paid by the NSB to the Department of Post for their services. The existing methodology used for the payment of service charge need to be revised with the consent of Post Master General.	Reasonable basis should be used by the bank when calculating service charges to PMG.

Without using the reasonable basis for calculating service charges (postal deposits, postal or withdrawals or any other reasonable basis), the bank is still calculating service charge by using National Consumer Price Index or complying above mentioned discussion minute in 1983.

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| 3. | The unreconciled receivable balance from Post Master General (PMG) as at 31 December 2020 was Rs.22,459,556. | Actions are being taken to clear the unreconciled receivable balances. | Said balance should be reconciled periodically. |
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3.4 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
<p>Without obtaining the legal ownership of eight lands, Bank had spent Rs.83.6 million for the construction activities on those lands situated in Anuradhapura, Elpitiya, Galnewa, Katharagama, Kiridiwela, Monaragala, Rathnapura, Kekirawa. This audit observation was reported since 2014 and the buildings were constructed prior to that year. ACOPE direction had been issued to discuss the matter with the Land Settlement Department to obtain legal ownership of them. However, bank had not obtained the legal ownership of those lands even as at the end of the year 2020.</p>	<p><u>Anuradhapura-</u> Bank has duly filled the documents sent by the Municipal Commissioner. Requested the current status on 2021.10.22 and being followed up.</p> <p><u>Elpitiya_</u> Preparation fees has been paid by the NSB Elpitiya branch and the DS has responded on 16.07.2021 stating that it has been to the survey Department</p> <p><u>Galnewa</u> GM has issued a consent letter for entering into a long-term lease as per the request made by the Divisional secretariat. Reminder sent on 2020.03.03 further reminders sent on 17.05.2021 & 22.10.2021 and being followed up.</p> <p><u>Katharagama,</u> Commissioner General- Department of Buddhist Affairs has communicated stipulated terms & conditions of the lease to Basnayaka Nilame of kataragama Dewalaya. And further informed to prepare the lease and asked to forward the same to the Department of Buddhist Affairs for the approval.</p> <p><u>Kekirawa</u> DS- Kekirawa has granted permission to the Bank by their letter dated 18.06.2020 to use the land subject to entering into a long-term lease agreement. Requested the current status on 2021.10.22</p> <p><u>Kiridiwela</u> Divisional Secretariat, Dompe has informed the land Commissioner Generals Department on the preparation of</p>	<p>Bank is trying to take lease hold right since 2014. Prompt actions should be taken to obtain lease agreements for these lands.</p>

long- term lease. Reminders sent on 15.10.2019, 17.05.2021 & 22.10.2021

Monaragala

Bank has paid ground rental pertaining to the year 2020 to the Divisional Secretariat and entering into a long –term lease is processing. Requested the current status on 2021.10.22

Rathnapura

All the documents have been sent to the Divisional Secretariat of Rathnapura and only the lease to be released. A reminder has sent on 17.05.2021 and the DS has responded on 25.06.2021 stating that they are in the process of finalizing the same. Requested the current status on 2021.10.22.

3.5 Idle or underutilized Property, Plant and Equipment

Audit Issue

Management Comment

Recommendation

The land with an extent of 38.8 perches was leased from the Urban Development Authority in the year 2008 for a 50-year period had not been used for effective purpose for last 11 years.

The Board of Directors has decided to develop a new building in this premises for the use of banking operations. However, the government has decided to hold the new building projects till 2022 and therefore, the Corporate Management Committee has decided to postpone this project.

Bank should invest in a land with a special purpose.

3.6 Human Resources Management

Audit Issue

Management Comment

Recommendation

01. There are 748 vacancies out of the board approve cadre of 5408 as at the end of the year 2020.

a. Out of the 2,502 executive staff cadre, 660 or 26 per cent are vacant which includes 5 Deputy General Managers, 6 Assistant General Managers, 28 Chief Managers, 10 Senior Managers, 13 Managers, and 140 Assistant Managers. This may have an affect to smooth operation of the Bank.

b. Out of the approved cadre (1043) of grade III-III, 430 numbers of vacancies were existed as at the

A delay in filling of remaining vacancies has occurred as the Presidential Election was declared in 2019 and the General Election was declared in 2020. Further, due to the Covid 19 pandemic situation, interviews for recruitments and promotions were postponed. However, during the year 2020, 03 promotions were granted to DGMM (Special Grade). Written

Vacancies of the bank should be filled within a reasonable time.

end of the year.

- c. As at 31 December 2020, the non-executive posts of Staff Assistants (Grade VI) were 38 per cent of the approved cadre. As at 31 December 2020, actual cadre was 2,000 including 229 contract basis employees and 66 posts were vacant.

Examination for promotion to Gr. III-II has also been conducted during the year 2020. During the year 2021, promotions granted to Grade III-III and III-II.

02. Approved cadre of the bank has been changed year by year. Number of approved staff for executive level AGM and DGM positions has been changed in following manner during last 5 years.

Post	2020	2019	2018	2017	2016
SDGM	02	02	02	02	02
DGM	12	12	13	13	13
AGM	26	26	21	19	24

- a. In the year 2017, DGM (Administration), Head of Risk Management and DGM (Asset Management) had been removed from the permanent cadre and DGM (International, DGM (Credit) and Consultant (Treasury-contract basis) had been added to the cadre.

The Bank's Manpower Plan is revised annually based on the requirements in the areas of business operations obtained from the Heads of Divisions. Accordingly, the approval of the Board of Directors is obtained annually for the Manpower Plan. Thus, the said removal and addition of DGMM positions is done based on the Bank's operational requirements.

Annual changes to man power plan may lead to make unnecessary posts and abnormal recruitments. Hence bank should maintain effective controls on this.

- b. Since 2017, Head of Risk Management position had been removed from the cadre and currently, an AGM (Risk) is conducting risk management function of the bank. The Bank has not strengthened the Risk management function of the bank by positioning a Chief Risk Officer at the independent Key managerial position. Risk management function needs to have an independent reporting line like Audit, Finance, the Back Office, and other control functions.

The officer who has been appointed for the post of Chief Manager (Risk Management) in 2013 has been promoted to the post of Asst. General Manager (Risk Management) w.e.f. 01.05.2018. The said officer has been appointed as the Chief Risk Officer (CRO) w.e.f. 01.10.2018. The CRO is a Key Management Personnel (KMP) of the Bank. Accordingly, it is complied with the Banking Act Determination 01 of 2019. CRO reports directly to BIRMC and is an independent Key Managerial position.

Bank should appoint the highest-level position 'of the bank as Chief risk officer for effective independency.

c. AGM positions in permanent cadre had been changed in year by year as follows.

Post	2016	2017	2018	2019	2020
AGM (operation/ regional)	3	2	3	1	5
AGM (retail Credit/ Recovery/credit)	2	2	2	3	2
AGM (Legal)	1	0	1	1	1
AGM (Marketing)	1	0	0	1	0
AGM (IT)	3	2	2	3	2
Secretary to the BOD	1	0	0	1	1
AGM (finance /planning)					
AGM (support service)	1	1	1	1	0

The Bank's Manpower Plan is revised annually based on the requirements in the areas of business operations obtained from the Heads of Divisions. Accordingly, the approval of the Board of Directors is obtained annually for the Manpower Plan. Thus, the said removal and addition of DGMM positions is done based on the Bank's operational requirements.

Annual changes to man power plan may lead to make unnecessary posts and abnormal recruitments. Hence, bank should maintain effective controls on this.

03. Bank has no proper transfer policy based on the requirements of the branches. Hence, vacancies of the branches had been arisen due to transfer of the staff to their native areas. Even though at the recruitment, bank gets the consent to work in island wide, transfers are given considering the personal requirements of the staff.

The Bank has an approved transfer policy. As per the transfer policy, the Bank has transferred 318 and 209 employees in Grade IV and below who have completed 5 years at the same station in 2017 and 2018, respectively. During the year 2020, the 5-year transfers had not been affected due to the Covid 19 pandemic situation.

Bank should update the transfer policy and strictly comply with that as per banks requirements.

However, 268 employees including promotes of Grade III-II and III-III and 374 employees in Grade IV and VI who have completed 5 years in the same station have been transferred in 2021.

Transfers are being made considering the Bank's actual requirement. Further, when making transfers, the appeals/grievances of the employees are also taken into account when they have served for a longer period in outstation branches as this may cause an impact to their contribution to the Bank.

04.

Following Key management positions are covered by separate key managers since considerable time period.

DGM (Recoveries) and DGM (International) positions are not in the Board approved cadre 2021.

Permanent Appointments should be made posts in the approved cadre.

Vacant position -----	Duties of the position is covered by -----	date of Covering appointment -----
DGM (Finance)	Senior DGM	2020.09.22 by GM circular no 1950/2020
DGM (International)	DGM (Credit)	2020.10.19 by Chairperson's circular 06/2020
DGM(Recoveries)	DGM (Marketing)	2020.10.12 by Chairperson's circular 04/2020

Accordingly, the only acting position in the special grade is Actg. DGM (Finance, Corporate Planning & MIS).

a. The Bank has not applied fixed method for granting approval for acting positions or covering positions. Eg.DGM (Administration, DGM(Recovery) and DGM(International) had been appointed through Chairperson circular while DGM (finance) had been appointed through General Manager's circular. In addition, DGM(IT) had been appointed by the Board of Directors.

As per the approved HR Policy Manual, any changes to a KMP position in the Bank should be communicated by a General Manager's Circular. This will be practiced in future.

HR division should follow the HR policy manual.

b. As per the Section 17 of the Financial Transaction Reporting Act No. 6 of 2006, Every Financial Institution shall appoint a senior managerial level officer as the compliance officer

As per the approved HR Policy Manual, any changes to a KMP position in the Bank should be communicated by a General

Proper independency cannot be maintained due to

who shall be responsible for ensuring the Financial Institution's compliance with the requirements of the Act and ensure that the compliance officer has prompt access to all customer records and other relevant information which may be required to discharge their functions. However, without appointing DGM level or Chief Compliance Officer, bank has conducted the overall compliance function of the Bank by appointing an Assistant General Manager.

Manager's Circular. This will be practiced in future.

Compliance Officer has been recruited to the Bank w.e.f. 18.11.2013. She has been promoted to the Asst. General Manager position (Special Grade) w.e.f. 01.11.2018.

compliance officer in a lower position than other divisional heads. Hence compliance officer should be located in a higher position.

In terms of the Banking Act Determination No. 01 of 2019 on Assessment of Fitness and Propriety of the Officers holding executive functions, officers holding Additional General Manager, Senior Dy. General Manager, Dy. General Manager, Asst. General Manager, Chief Risk Officer and Compliance Officer are determined as the officers performing executive functions in a licensed Bank.

Further, the Compliance Officer is considered as a Key Management Position, and it directly reports to the Board Integrated Risk Management Committee (BIRMC) of the Bank. Therefore, the Compliance Officer holds an independent Key Managerial Position in the Bank.

4. Accountability and Good Governance

4.1 Effectiveness of Management Information System

Audit Issue	Management Comment	Recommendation
There is a gap between the balance of fixed deposits as per the financial statement and as per information obtained from the IT Division amounting to Rs 422,831,641 as at 31 December 2020 due to not considering 12 Types of deposits by IT division.	The amount shown as fixed deposits as at 31/12/2020 in the Financial Statements is correct.	Information taken from the information system at any time for decision making purpose should be correct.