

## **Bank of Ceylon and its subsidiaries - 2021**

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### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the Financial Statements of the Bank of Ceylon (the “Bank”) and the Consolidated Financial Statements of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flow 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. The Bank has been exempted from the provisions of Part II of the Finance Act, No. 38 of 1971 by an Order of then Minister of Finance published in the Government Gazette No. 715 of 14 May 1992 by virtue of powers vested in him by Sections 5(1) of the said Finance Act. My comments and observations which I consider should be report to Parliament appears in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2021, and of their financial performance and their 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 Group 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 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 Company'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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company.
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company 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.**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(i) The Financial Statements of the Bank is prepared based on the financial information derived from core banking systems. Subsequently the entries relating to the IFRS adjustments are passed and that information is maintained in spread sheets. This might lead to loss or manipulation of data. Therefore, the bank needs to evaluate the necessity of fully automated system solution to prepare the full set of financial statements to ensure the data accuracy.	<p>The Bank doesn't have a fully automated system solution to prepare the full set of financials at this moment. The Bank is in the stage of developing an automated system (Financial Reporting System) which supports impairment provision calculation, MIS reporting and Financial Statement preparation.</p> <p>However, at present, the majority of the financial information is derived from core business systems and major part of the impairment calculation is supported by Financial Reporting System. It is expected to automate the preparation of the financial statements after completing the phase 3 of the Financial Reporting System.</p> <p>Further, we would like to bring to your attention that, entire</p>	It is recommended to automate the financial statements preparation process.

- preparation process of the financials statements of the Bank is audited by the internal audit department and external auditors and necessary controls have been established as recommended by both auditors.
- (ii) Even though the bank had purchased a software to compute the collective impairment, the Exposure at Default (EAD) and Expected Credit Loss (ECL) adjustments are still performing manually.
- The Bank obtained EAD through the system along with the PD and LGDs. When calculating the ECL, system generated PD, LGD and EAD are used. However, a manual intervention is used when calculating the EFA which is used to arrive ECL as recent change carried out for the EFA calculation model. The Bank is working with the vendor to the incorporate the EFA process in the system by incorporating the recent changes took place in the EFA model.
- It is recommended to perform the ECL calculations through the system without any manual intervention.

## 1.5.2 Unreconciled Control Accounts or Records

### Audit Issue

A difference of Rs.397,565,454 was reported between the General Ledger balance and the outstanding balances of the Bank Trade Finance System due to some system failures. Full provision has been made in this regard during the financial year 2021.

### Management Comment

A difference of Rs. 397,565,454 was reported to Assets and Liability Management committee by memo dated 31.01.2022 with the recommendation of CIA, and was instructed to review from IS Audit.

The Internal audit report has been issued and, fresh memorandum will be submitted to ALCO seeking approval to reverse the unsettled interest.

Target Date:- 31.12.2022

### Recommendation

It is recommended to do necessary correction on due dates and reconcile the balances between the general ledger and the subsystems on frequent basis.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Payables

#### Audit Issue

- (i) The following accounts categorized under other liabilities are having long outstanding balances coming since considerable period of time. Satisfactory actions have not been taken by the respective authorities to clear the long outstanding balances. The details of such balances are given below.

#### Management Comment

#### Recommendation

The Bank has established a process to reconcile and clear long outstanding liability accounts. It is recommended to take necessary actions to clear long outstanding balances of other liability accounts.

GL A/C Name	GL No.	Amount (Rs.)	Remarks	
Pay Order	21818006	1,427,646,565	Age analysis of the Balance.	
			Less than 1 year (Rs.)	1,039,529,832
			1 to 5 year (Rs.)	381,861,269
			More than 5 years (Rs.)	6,255,464
Unclaimed Balances A/C	21818009	653,410,057	This balance is coming under this A/C since 8 years period of time.	
Proceeds of Charge Vouchers sent on Collection	22310082	125,907,701	Age analysis of the Balance.	
			More than 5 years (Rs.)	65,486,051
			2 – 5 years	34,448,572.92

However, certain items have to be maintained due to different reasons and respective business divisions will be advised to clear long outstanding items.

#### Pay Order

Respective business divisions continuously advise to clear long outstanding items at their respective cost centers.

#### Unclaimed Balances A/C

			(Rs.)	
			1 year (Rs.)	25,973,077.56
Reserve on Forged Cheque and Frauds	22310122	678,830,827	This balance is exceeded five years period of time.	
<b>Total</b>		<b>2,885,795,150</b>		

This transaction relates to the FARAB CO LTD/ Naftiran Intertrade Co.of Iran. As of United Nations Sanctions imposed with state of Iran, the respective assets were freezed in complying with this regulation. The Balance of the accounts owned by such companies are remained with the Bank until such sanctions are lifted or an agreeable funds dispose mode be achieved. Bank is not in a position to disburse, transfer or allocate these funds as per UN sanctions. The Bank has approved

policy on  
unclaimed  
balance and  
action will be  
made to  
transfer  
unclaimed  
balance to  
CBSL as per  
the approved  
policy /  
CBSL  
direction.

**Proceeds of  
Charge  
Vouchers  
sent on  
Collection:-**

i).  
Outstanding  
balance more  
than 5 years  
Pending due  
to court cases  
with Sahana  
foundation  
and Women  
and Child  
amounting to  
LKR 64  
million.\*

ii). O/S  
during 2-  
5years  
Maldives  
POS  
merchant who  
has court case  
in Maldives  
amounting to  
USD 97000.\*

iii). O/S  
within the  
year  
payments to  
be settled to  
the merchants  
after  
completing  
charge back  
period (within  
120 days) \*

\*In addition,  
there are few  
long O/S  
amounts due  
to closing of  
merchant's  
accounts,  
termination of  
merchants  
etc., where  
we do not  
have credit  
instructions.

**Reserve on  
forged  
cheque and  
frauds**

Continuous  
monitoring  
process is  
conducted to  
reduce the  
provision in  
the reserve  
account. But  
some items  
cannot be  
reversed due  
to pending  
court cases.



## 1.6.2 Advances

Audit Issue	Management Comment	Recommendation
<p>(i) Total outstanding balance of Loans &amp; Advances belonging to State Owned Enterprises (SOEs) has been increased significantly in last five years period. The following observations were revealed from the analysis performed.</p> <ul style="list-style-type: none"> <li>Total outstanding balance of State-Owned Enterprises (SOEs) as at 31 December 2017 represented 30.24 percent from total loans and advances and 18.90 percent from total assets of the Bank. During the year 2021, the percentages have increased to 44.31 percent from total loans and advances and 30.02 percent from total assets of the Bank respectively which shows a rapid increase of 47 percent and 29 percent.</li> <li>Although the bank's total assets base increased up to Rs.3, 803 billion as at 31 December 2021, 30.02 percent represented the loan and advances granted to State Owned Enterprises (SOEs).</li> <li>Off balance sheet values (LCs, Acceptance and Bank Guarantees) belonging to State Owned Enterprises (SOEs) as at 31 December 2021 was amounting to Rs.197,087 million and including the aforesaid off-balance sheet value the total exposure of State-Owned Enterprises (SOEs) was recorded as Rs.2,385,602 million and it represented 62.72 per cent of total assets of the bank.</li> </ul>	<p>Comments Noted</p> <ul style="list-style-type: none"> <li>According to the corporate plan 2022-2024 the Bank has planned to increase private sector exposure to 70 per cent of the total Bank's portfolio, restricting government and SOEs exposure to 30 per cent.</li> <li>However, due to economic instabilities prevailed in the aftermath of COVID pandemic; private sector entities got severely affected and Bank was unable to reach the anticipated levels of exposure to the private sector, especially major customers being the clients of the GOSL and SOEs. (i.e. RDA, UDA) and spillover impacts thereupon to the private sector.</li> <li>At the same time being a state-owned Bank, BOC was compelled to increase its portfolio to the government owing to social responsibility and national interest, complying to the regulatory and statutory demands.</li> <li>However, changes made to the pricing strategy/restructuring initiatives the concerned SOEs has reached breakeven / started to record profits and thereby improvements in cash flows have been observed and they have been able to service the interest of the existing facilities.</li> <li>Following strategies have now been implemented to curtail the existing and potential exposure</li> </ul>	<p>It is recommended that adhere to the corporate plan 2022-2024 and decreased government and SOEs exposure as target.</p>

to the government and SOEs to manageable level.

- i) Requested from Govt, Treasury to purchase and reissue Treasury bonds worth of Rs 100 billion initially at market rates out of DST converted bond. This will help bank to increase the market value of the said bond by Rs 53 billion.
- ii) Time bound strategies have been implemented to reduce exposure to the DST, and the limit has been reduced to Rs. 40.0 Bn. This will lead to ease off the liquidity pressure on further overdrawing Treasury account.
- iii) Bank has already made a request to enhance the yield of DST converted Treasury Bonds worth of Rs.100 billion to the Secretary to the Treasury on 22.08.2022.
- iv) Treasury has forwarded the Bank's request to Public Dept. Department to get their observations/ recommendations on 30.08.2022 and the decision is still pending.
- v) Negotiation is ongoing with Govt, Treasury to grant short term Govt, Securities in lieu with non-performing loans owned to the SOEs. Bank was already offered Rs 8.5 Bn worth of 3-year Treasury Bonds for RDA and NWS&DB.
- vi) In order to monitor the exposure to the SOEs, appetite limits were established in the following

manner with the approval of the Board of Directors.

- a) Appetite limit of Rs. 800 Bn for all SOEs
- b) Specific Risk Appetite Limits

<b>Customer Name</b>	<b>Risk Appetite Limit (Rs.Bn)</b>
Road Development Authority	175.0
Road Development Authority – as beneficiary for Invoice Discounting & Bills Discounting	15.0
National Water Supply & Drainage	50.0
Ceylon Electricity Board	20.0
Paddy Marketing Board	15.0
Urban Development Authority	10.0

- vii) Approval has been obtained from the Board of Directors not to entertain fresh facilities and to cancel the letter of intent already issued and reduce the approved limits of following SOEs.

- National Water Supply and Drainage Board
- Road Development Authority
- Urban Development Authority
- Paddy Marketing Board

- viii) Required changes have been adopted to the evaluation methodology accordingly.

- ix) Real time assessment on capital adequacy and liquidity on every new credit proposal of SOEs and GOSL is carried out and such requirement in the memoranda has been made mandatory.
- x) Propose to implement appropriate appetite limit on the lending to and funding from government and SOEs.
- xi) As directed by CBSL Bank Supervision, Bank has curtailed lending to GOSL and SOEs and any such lending will be with the prior approval of the Board of Directors.
- xii) Bank currently has resolved acute foreign currency liquidity related issues by settling material commitments.
- xiii) Even though the GOSL have not honored some of the FCY commitments bank met such material commitments using its FCY inflows received from customers on daily basis.
- xiv) If current inflow position is continuous with increasing trend, Bank does not foresee any barrier to undertake the liabilities arising from the established LCs on the staggered basis as the major commitments accrued have already been settled.

(ii) The Deputy Secretary to the Treasury, Ceylon Petroleum Corporation, Road Development Authority, Government of Sri Lanka, Sri Lanka  
 Comments Noted. Being a state-owned Bank, BOC is compelled to extend facilities to the  
 It is recommended to ensure that

Air Lines Limited, National Water Supply & Drainage Board, Ceylon Electricity Board, Department of Pension, State Pharmaceuticals Corporation of Sri Lanka and Paddy Marketing board recognized as the top 10 State Owned Enterprises (SOEs) as at 31 December 2021. The total outstanding balances of top 10 State Owned Enterprises (SOEs) as at 31 December 2021 have recorded as Rs.1,101,087 million which include capital outstanding of Rs.1,085,738 million and interest outstanding of Rs.15,349 million. This represented 96.44 percent from total outstanding balance of loans & advances belonging to the State-Owned Enterprises (SOEs). Therefore, there is a major dependency on main SOE customers was observed.

(iii) It was observed that the DST overdraft has been recently restructured in several occasions to curb the rising OD balance. During the two years period from 2020 to 2021 Rs.527 billion worth of overdraft balance has been converted into treasury bonds. The following observations are made in this regard.

- Due to these restructuring, recovery of the OD facilities extended to DST are deferred by 1 – 10 years period. These over drafts are mainly funded through the short-term borrowing sources and it will generate a gap in maturity profile of assets and liabilities.
- The average bond rate of the existing portfolio which is held in settlement of DST is stood at 10 per cent at average and the average market rate of such bonds is nearly 15 percent. Hence the Bank is incurring a loss due to lower bond rate of the DST portfolio.
- The overdraft balance of the DST account as at 31 December 2021 is Rs.430,148 million and the book value of the treasury bonds which have been issued during the period of 2020 to 2021 in settlement of government exposure is Rs.513,000 million.

Government and Government owned Enterprises owing to social responsibility and national interest, complying to the regulatory and statutory demands.

adhere to the corporate plan 2022-2024 and decreased government and SOEs exposure as target.

Following strategies have now been implemented to curtail the existing and potential exposure to the DST overdraft to manageable level.

It is recommended to maintain DST overfat at manageable level.

Refer answers of (i), (ii) and (iii) given to Section (i) of Para 1.6.2

The bank has discontinued converting the DST OD balance to Treasury Bonds from May 2022.

As directed by CBSL Bank Supervision, Bank has curtailed lending to GOSL and SOEs and any such lending will be with the prior approval of the Board of Directors.

As well it was further observed that Rs.8,025 million worth of Treasury bonds have been issued during the years of 2020 and 2021 in order to set off the interest receivable balance for senior citizen deposits and Enterprises Sri Lanka loan scheme from government treasury.

The total GOSL exposure is Rs.1,057,226 million and it reflects 27.80 per cent of the total assets of the Bank as at 31 December 2021. Details are given in the following table.

<b>Description</b>	<b>Balance As at 31 December 2021 Rs'Million</b>
DST OD Balance	430,148
GOSL Loan	106,054
Book Value of Treasury Bond in settlement of DST Over Draft Balance	513,000
Treasury Bond issued in order to set off the interest receivable balance for Senior Citizen Deposits and Enterprises Sri Lanka Loan Scheme from Government Treasury	8,025
<b>Total GOSL Exposure</b>	<b>1,057,227</b>
<b>Total Assets of the Bank as at 31 December 2021</b>	<b>3,803,284</b>
<b>Total GOSL Exposure as a % of Total Assets of the Bank</b>	<b>27.80%</b>

- (iv) The Bank had prevented loans extended to the several loss-making SOEs from being classified as NPL even though there is no repayment of capital and interest. 26 numbers of loans granted to Sri Lankan Air Lines and 16 numbers of loans granted to National Water Supply and Drainage Board have not been correctly classified after Sri Lankan Airlines Covid 19 and economic crisis severely affected on SLAL's business. Most of the bookings were cancelled resulting decreasing cash inflow to the bank. However continuous correspondence between It is recommended to calculate adequate provision to a particular customers.

considering the number of times restructured as directed through the Central Bank Guideline on SLFRS 09. Accordingly, actual impaired loans would be much higher than the recorded amount.

SLAL and the bank has been delivered. Major portion of SLAL facilities secured against Government guarantees and letter of comforts from the GOSL as the owner of the state and bank is bound to honour such arrangement due to the national interest and acceptability of the government security.

Re-structuring the facilities with acceptable cash flow plan has not been materialized.

SLAL paid off USD1.0 Mn Term Loan at its maturity on 22.06.2022 and LKR450.0 Mn loan facility on 06.10.2022. SLAL also settled its USD10.0 Mn SWAP arrangement at its maturity on 06.10.2022.

Interest payments on bank facilities have been made on timely manner.

SLAL has been categorized under stage 2 for the purpose of impairment provisioning and has provided LKR 2.7 Bn on 30.09.2022.

#### **National Water Supply and Drainage Board**

Capital outstanding of 16 loans as at 31.12.2019 have been restructured with two years grace period, capital payable from December 2022 onwards bi-annually during the balance period of each loans without extending the originally approved total tenor and other terms and conditions. As per the arrangement, NWSDB has serviced interest up to 30.12.2021. However, last bi-annual interest payment of Rs.2.36 Bn remained unsettled since June 2022, without any favourable response from the NWSDB or General Treasury. NWSDB by the

letter dated 01.09.2022 requested for a deferment of bi-annual interest payment of Rs.2.36 Bn which was fallen due on 30.06.2022, up to 31.12.2022.

Thereby, capital payment together with interest too will commence from December 2022 increasing NWSDB debt obligation during Dec 2022 up to Rs.10.0 Bn, which seems difficult to NWSDB at this juncture.

In these circumstances, considering risk of defaulting December 2022 instalment by NWSDB as well, classified NWSDB loans portfolio under Stage II on impairment provisioning as per OIC 60/2021, during the quarter ended 30.09.2022.

- (v) The top 10 Non-Performing Customers (NPA) were analyzed during the past 5 year's period and the following observations were revealed from the analysis performed.
- The aggregated balance of top 10 Non-Performing customers was Rs.21,455.50 million as at 31 December 2021 and it represents 18.50 percent of total non-performing gross loans and advances of the Bank as at that date.
  - The aggregated top 10 non-performing customer balance has increased by 181.8 percent or Rs.13, 843.06 million as at 31 December 2021 when compared with the financial year 2017. The movements of the aggregated top 10 Non-performing customer balances are given in the following table.
- The Non-Performing Credit Facilities (NPCF) growth is resulted mainly due to the inevitable issues related to the economic downturn encountered by borrowers with the Easter Sunday attack, Covid 19 pandemic situation, expiration of the moratorium period, interest rate hike and suspended recovery/ legal actions as a Government policy decision.
- K D Ebert and Sons Holding (Pvt) Ltd.**
- The bank made arrangement to obtain fresh valuations for the properties already mortgaged to the bank. (FSV is 852 Mn, MV is 943.90 Mn)
- In addition, company has mortgaged plant and machinery, vehicles for the facilities obtained. Details are given
- It is recommended to ensure that satisfactory customer evaluations have been performed by the bank before granting loans to a particular customers.



Description	2017	2018	2019	2020	2021
Aggregated Top 10 Non-Performing Customer Balance	7,612.44	12,440.50	14,309	16,257.55	21,455.50
Increase of Top 10 NPL balance compared to previous year (Rs' Mn)	-	4,828.06	1,868.50	1,948.55	5,197.95
% Increase of Top 10 NPL balance compared to previous year (%)	-	63.4%	15.0%	13.6%	32.0%

- There are several customers who are continuously ranked at top in the NPA customers list of the Bank. Details are given below.

Customer Name	Total Outstanding as at 31 December 2021 (Rs'Mn)	Remarks
K D Ebert & Sons Holdings (PVT) LTD	3,538.81	Ranked as the highest NPA customer during the past 4 years period (2018 to 2021)
Kaduwela Holdings	1,105.97	Continuously remaining in the top NPL customer list in the last five years period. (2017

below.

Valuation Report Date	No. Of Vehicles and Machinery	Market Value (MV) Rs. Mn	Force d sale Value (FSV) Rs. Mn
08.01.2021	79	282,445,000	214,375,755
31.05.2021	295	761,613,750	642,294,263
31.05.2021	119	1559,735,804	1239,989,964

In addition, the above company has involved in several road projects. Total projects in hand as at 28.02.2022 was Rs. 10.3 Bn. In this circumstances RDA had confirmed their letter at 05.07.2022 total certified payments is Rs. 641.0 Mn.

In addition to the above bank has provided an impairment provision of 4,581.3 Mn as at 30.09.2022.

#### **Kaduwela Holdings**

Continuously remaining in the top NPL customer list in the last five years period (2017 – 2021). The Bank of Ceylon has taken legal actions against the Hypothecation Loan of Rs.450.0 Mn, Medium Term Loan of Rs.100.0 Mn, LC Bills of Rs. 426.26 Mn and Overdraft of Rs.134.09 Mn.

#### **Ruhunu Development Contractors & Engineers (Pvt) Ltd**

Bank has considered to review the

		- 2021)
Ruhunu Development Contractors & Engineering (PVT) LTD	1,551.92	Continuously remained in Top NPL customer list in the last three years period. (2019 – 2021)
Anudan Holdings (PVT) LTD	1,286.38	
R N Constructions (PVT) LTD	1,266.77	
N B Foods (PVT) LTD	1,253.48	

company under Business revival and revival strategy with rescheduling existing facilities and granted fresh working capital facilities to the company. Company is fully engage in construction projects offered by RDA. Bank expects to route total cash flow to bank and recover the all facilities with the time. According to that BRR unit has implemented revival plan in September 2021. After revival company's performance as follows.

- Total Cash flow routed to BOC Rs.2391.0 Mn
- Capital Recovered : Rs. 627.0 Mn\* (\*Including the recovery of facilities granted under revolving limits)
- Interest Recovered : Rs. 77.7 Mn
- Commission/Other Income Recovered : Rs. 47.2 Mn

Company has halt most of projects due to prevailing situation of the country.

Total amount to be received from RDA – Rs.730.0. The company agreed to repay the reschedule loan installments from the proceeds to be received from RDA.

#### **Anudan Holdings**

Customer is servicing only 02 working Capital facilities at present and agreed to reschedule the remaining facilities after December 2022 or else the bank will initiate parate actions for the same.

**R N Constructions (Pvt) Ltd.**

Company is engage in construction works of GOSL and private projects. Bank has taken decision to revive the company with rescheduling existing facilities and granting fresh working capital facilities to the company also bank expects to route total cash flow of the customer to the bank and recover all facilities with the time. Especially at present company is prioritizing private projects rather than GOSL projects.

According to that BRR unit has implemented revival plan in December 2021.

After revival company's performance as follows

- Total cash flow of Rs. 812.0 Mn has been routed to the current account after transferring to revival period.
- Capital Recovered : Rs.63.0 Mn
- Interest Recovered : Rs. 20.5 Mn
- Commission Recovered : Rs. 14.8 Mn
- Receivable from RDA – RS. 44.0 Mn.

But most of projects have been delayed due to prevailing situation of the country and expected cash flow has been reduced. Company has agreed to settle reschedule loan installments from the cash flows to be received from the RDA as well as other private projects.

**N B Foods (PVT) LTD**

Legal actions are continued. Meanwhile, customer has requested to settle part of the Series of loans

(vi) There are some customers to whom loans were granted in a particular year and those loans are transferred to NPL category in the same year (Excluded rescheduled facilities). An analysis has been performed towards the top 10 customers who are falling into the above category. It was observed that Rs.795.56 million has been disbursed to these 10 customers during the year 2021 and out of that 86 percent or Rs.683.77 million has been transferred to the Non-Performing category with in the same year 2021.

facility by disposing two mortgaged properties and approval of the Credit Committee is sought for the same.

Approval has been obtained by Corporate Management Committee on 25.05.2022 to implement a mechanism to report the facilities to Credit Committee on 1<sup>st</sup> week of every month, which considered as NPCFs within first six months from the date granted for both facilities above and below Rs. 5Mn.

It is recommended to ensure that satisfactory customer evaluations have been performed by the bank before granting loans to a particular customers.

**SDK United Agri Ventures (Pvt) Ltd**

These facilities have been granted to import soya beans & soya meal and export soya oil. Mainly SDK purchase, store, sell maize and manufacture soya oil under the brand name "Umega" and animal foods supply to local market. Due to the Covid 19 pandemic, SDK couldn't maintain their business circle continuously and circle was fallen down. Hence short term credit facilities were transferred to NPA category in the same year.

DGM & AGM - Recovery provinces & Area manager of Medawachchiya Area were visited SDK to conduct recovery clinic in April 2022.

Presently, all facilities were transferred to the Business Revival Unit on 31.08.2022 and the revival process is in the initial stage.

**D S Gunesekera Passenger Transport and D S Gunasekara (Pvt) Ltd**

Moratorium had been granted by way of creating sub term loans to

recover leasing rentals. New funds are not disbursed to the customer. However, the sub loans also transferred to NPA section due to continuous impact of COVID pandemic to transportation sector. Presently Existing facilities and sub loans facilities have transferred to BRRU excluding leasing facilities.

**Senaro Motor Company (Pvt) Ltd**

Business revival activities are initiated and in the funding stage. Customer expects to generate cash flows from January 2023 where the company is still in obtaining necessary approvals and completing construction activities & etc.

**K D Ebert and Sons Holding (Pvt) Ltd.**

Refer answers given under Paragraph 6.2 (v) relevant to the K D Ebert and Sons Holding (Pvt) Ltd.

**Aura Apparel Exports (Pvt) Ltd**

The facility granted to finance export orders. Recovery action is going on.

**Almar Teas (pvt) Ltd**

Bank has recovered several packing credit loans (PCL) from the export proceeds routed through the company account maintained at corporate branch. Due to non-availability of proper settlement plan, credit files of the company have already been transferred to the Recovery Corporate Department. Legal action has been initiated against the company and the directors.

**Gilkrisht Leisure (Pvt) Ltd**

All the existing facilities are in performing section. Moratorium concession have been granted since 2019 under tourism category.

**D P Jayasinghe Tours & Transport Co (Pvt) Ltd**

Subject loans are moratorium converted loans which are granted during the Covid pandemic period.

The company completed a 07-storied commercial building at No.717, Baseline Road, Colombo 09 with the intention of renting-out office space to the Corporate clients since January 2016, which is not yet materialized up to now. Even though, letters of undertaking have given by the company to route 100% of the cash flow through BOC to service the existing liabilities, it was also not materialized. Situation was aggravated due to continuous impact of Covid outbreak and economic crisis of the country. Presently, all the liabilities including subject loans have been transferred to NPA. Hence, credit files have transferred to Recovery Corporate Department on 14.10.2022 to initiate recovery actions.

**U S S Engineering (Pvt) Ltd**

Term loan facilities transferred to non-performing category in year 2020.

Last facility was granted on 25.10.2021 Loan No. 88015977 Granted amount Rs.31.5M and outstanding Rs.3.75M. Company agreed to settle the NPA position by liquidating company owned properties.

- |        |  |  |   |
|--------|--|--|---|
| (vii)  | <p>When analyzing the Non-Performing ratio calculation on loans granted for various sectors of the Bank during the past four years period, it was observed that the non-performing ratios of the Manufacturing, Transport &amp; Storage, Construction, Health Care, Social Services &amp; Support Services and Consumption have gradually increased during the past four years period.</p>   | <p>Non- Performing ratio of the bank has gradually increased during the past four years as per the impact of Easter Sunday attack, Covid 19 outbreak, exchange rate fluctuation and economic crisis.</p> <p>Issue is aggravated with the Govt. Policy decision of suspension of recovery / legal action up to 31.12.2022.</p>  | <p>It is recommended to take necessary action to maintain Non-Performing ratio of the Bank at minimum level.</p>  |
| (viii) | <p><b>Loans granted to Ceylon News Papers (Pvt) Ltd</b><br/>-----</p> <p>The first facility to Ceylon Newspapers (Pvt) Ltd was granted in 2011 and enhanced them in 2014. Facilities were rescheduled initially in 2015 and again in 2017 by increasing the tenor and reducing existing interest rates. The Company's total loan portfolio consists from 13 main loans and 11 sub loans as at 31 December 2021 and the total group exposure is Rs. 2,370 million. The following observations are made in this regard.</p> <ul style="list-style-type: none"> <li>• Out of 13 main loans granted since December 2019, 11 numbers of loans have been granted either to reschedule the existing loans or to convert the outstanding under existing Letters of credit / Bill acceptance / series of loan (once and for all) facility.</li> <li>• Out of 13 main loans, 9 loans have been granted with 24 months grace period and another one loan with 12 months grace period. Therefore these 10 loans are still lying in the performing category.</li> <li>• The overall financial performance of the Company was unfavorable. As per the audited financial statements of the company, it had recorded a significant net loss since 2011/12 to 2019/20 and the loss has being increasing significantly over the past nine year's period. The Company's negative net worth has</li> </ul> | <p>The total credit portfolio of the company has been restructured on June 2021 by matching the monthly recovery to the projected cash flow. However, due to the pandemic consequences, adverse economic condition, import restrictions and various difficulties faced in collecting payments has affected the cash flow of the company. Hence, recovery of the facilities has not been materialized as planned. Upon the request of the customer we have granted moratorium to many loans of the company for the period of May 2022 to November 2022. Company has a new business plan to overcome the current position with diversification of its business. In view of assisting the company at this needy hour, with the purpose of reviving the business the file has been transferred to Business Revival and Rehabilitation Unit in August 2022. The bank is closely monitor the new revival plan submitted by the Company by which outstanding are planned to be recovered.</p> | <p>It is recommended to ensure that satisfactory customer evaluations have been performed by the bank before granting loans to a particular customers</p> |

reached to Rs.3.7 billion in 2019/2020. The Bank has not considered the unfavorable financial position of the company prior to granting these loans.

- The Company was unable to meet the following conditions stipulated in the offer letter.
  - Enhancing the stated capital up to Rs.300 million on or before 31 March 2018.
  - Furnishing stocks and book debts statements certified by directors monthly.
  - Settling the total outstanding under the term loan facility amounting to Rs.365.4 million from the proceeds to be received from the sale of personal property of Company Chairman, situated at Horton Place, Colombo 07.
  
- As per the board minute No 2.12 dated 12 May 2020, the board had decided to not to entertain any more facilities to this company. However base on the company's request a fresh credit package of Rs.850 million has been approved on 06 May 2021.
  
- As per the Board Minute No: 2.6 dated 17 November 2021, it was resolved to consider the rate of advance up to 100 per cent base on the **Market Value placed by the Panel Valuer** for the mortgaged properties. However, as per the circular instructions for other facilities Rate of Advance is considered as 60 per cent based on the **Forced Sales value placed by the Bank's Valuers**. Therefore, it was observed that the Bank has offered more favorable treatments for the company by allowing them to entertain more credit facilities.



(ix) **Loans granted to Srei Equipment Finance Limited (SEFL)**

-----  
Srei Equipment Finance Limited (SEFL) is a part of the Kanoria Foundation, founded by the Kanoria family, headquarters in Kalkata, India. A syndicate term loan facility of USD 110.0 million has been granted by the Standard Chartered Bank - Singapore as the lead adviser and arranger to SEFL to utilize for infrastructure financing in compliance with Reserve Bank of India guidelines. The Bank has granted USD 15.0 million on 30 July 2018 as BOC subscription for the syndicate loan which is payable in five years period of time. Following observations are made in this regard.

- The board approval for authority delegation for signing the security documents and other related documents has not been obtained at the time of forwarding confidentiality agreement to the Standard Chartered Bank through the email dated 25 September 2017.
- Offer letter dated 07 December 2017 sent by Bank of Ceylon - Offshore Banking division to SREI Equipment Finance Limited has not been signed by the Deputy General Manager - Corporate and Offshore Banking as per the authority delegated.
- As per the audited financial statements of four years period (2014 – 2017), the company shows a declining trend of its financial results. The Company's net working capital position shows a negative figure which increased over the past 4 years. The company's Debt to Equity ratio also shows a high geared position.
- According to additional information of the Invitation Letter dated 23 August 2017, each institution contemplating to participate in the facility is required to conduct its own independent investigation of the financial

Preliminary information is always being obtained from the borrower to evaluate credit proposals. Being the syndicate arranger, Standard Chartered Bank has forwarded a Confidentiality Agreement (CA) to Bank of Ceylon and such we understand that it is a norm in the industry to protect the business interest of one bank been protected within competition. By signing such a CA, Bank of Ceylon is bound to protect and not to disclose any sensitive information either of the borrower or of the syndicate loan arrangement. It also prevents approaching the borrower for singular deal.

Borrower is not a party in this CA and as the syndicate party and arranger when in principal agreement is present to the syndication with Board of Directors of the Bank, AGM (OB) shall have the capacity to enter into such understanding on behalf of the Bank for the syndication

While signing individually of the above CA, there is no any loss occurred to the bank either by signing the Confidentiality Agreement or any one of the conditions stipulated therein.

Borrower is not a willful defaulter in this facility and SREI Equipment Finance Limited's cash flow was affected by the COVID-19 pandemic making the company insolvent in the interim.

The Offer Letter is an invitation to the entity which is proposed to include, describe and limit the entity a facility, its attributes, its properties

It is recommended to ensure that satisfactory customer evaluations have been performed by the bank before granting loans to a particular customers

condition and affairs of the borrower and make its own appraisal of the creditworthiness of the borrower and the facility. However, the bank has not conducted any customer evaluation or taken into account the unfavorable financial position of the company. It is solely depended on the Standard Chartered Bank (SCB) who act as Mandated Lead Arranger, for the syndicate loan facility.

- The loan has been granted against secured receivables and the Bank has not conducted any independent verification or an age analysis of Secured Receivables before granting the loan facility.
- This loan has been transferred to Non - Performing category on 14 December 2021. As per the information received from Standard Chartered Bank, the Company has declared as insolvent and has informed every consortium participant to lodge claims individually. However, the Reserve Bank of India (RBI) believes that the assets of the company are not enough to meet the liabilities according to the forensic audit conducted by KPMG Chartered Accountants. Therefore, the recoverability of this loan is doubtful.

and conditions stipulated. Such offer is an extract of the approved memoranda of the board of directors. Once such as offer been accepted, the actual loan documentation including the Loan Agreement is made between the Bank and the Entity.

The said agreement is signed by the Deputy General Manager (Corporate and Offshore Banking) hence the requirement of the delegated authority was made in full.

In the memorandum dated 28.11.2017 financial analysis is given as per the standard format of the Bank, which clearly denotes the trends in turnover, PAT, EBITD, Net working capital and Total Debt / Equity.

Decline in total income, status of current ratio and status of leverage ratio of the company are explained under financial evaluation of the memorandum.

SREI is considered as a Loan Server for micro markets and complies to the parameter of a financial entity and such a financial entity records higher than the normal Debt-to-equity indices.

Market capitalization of SREI Equipment Finance Limited was USD 10 Bn. at the time of evaluating the company for grating credit facility and it was one of the lucrative business conglomerates in India.

Credit proposal was evaluated similar to other credit proposal. If the credit analysis and evaluating of

credit worthiness of the borrower are not done to the satisfaction of the recommending and approving authorities, usually they defer the credit memorandum instructing to resubmit the same with proper credit evaluation, without approving. For further information the market capitalization of SREI Equipment Finance Limited was USD 10 Bn. at the time of evaluating the company for granting credit facility and it was one of the lucrative business conglomerates in India. At the granting of this Syndicate loan facility, the company shared the Secured Receivable. Secured Receivable including Top ten customers of the SREI.

**Timeline for CIRP process.**

Particulars	Timeline
Insolvency Commencement Date	08-10-2021
Publication of Public Announcement	11-10-2021
1st meeting of the CoC	02-11-2021
Submission of IM to CoC	26-11-2021
Publish Form G / Invitation of EoI	25-02-2022
Submission of EoI	12-03-2022
Provisional List of RAs by RP	22-03-2022
Submission of objections to provisional list	27-03-2022

Issue of RFRP, including Eval. Matrix and IM	01-04-2022
Final List of RAs (Resolution Applications) by RP (Resolution process)	06-04-2022
Receipt of Resolution Plans (existing)	07-06-2022
Receipt of Resolution Plans (revised)	30-08-2022
Last day for filing COC approved Resolution Plan in NCLT	04-11-2022

**Cash collection up to 31.05.2022  
(Last eight months)**

FD Deposit in UCO - Crore INR  
1,350.00

Cash Balance - Crore INR  
261.99

Total - Crore INR  
1,611.99

**In USD Million**  
**209.55**

1 Crore = 10,000,000 INR

1 INR = 0.013 USD

The Administrator apprised the CoC members about active diligence being conducted by three (3) PRAs (Prospective Resolution Applications) and several meetings in this regard being held between the PRAs and the management team including Administrator and his advisors.

Three PRA are as follows.

1. Arena Investors LP

(x) **Loans granted to W M Mendis & Company Limited**

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W M Mendis & Company Limited is a private limited liability company and engaged in manufacturing and bottling wide range of coconut and blended arrack products. The Bank has granted a credit package to the company and following observations are made in this regard.

- The Bank has approved new facilities and several expansions to the existing facilities to W M Mendis & Company on 8 June 2016, 09 July 2018, 18 September 2019 and 12 May 2020 respectively.

The credit package approved to the Company on 12 May 2020, includes a rescheduled term loan of Rs.2,055 million, a term loan of Rs.240 million, another rescheduled loan of Rs.318 million and an overdraft facility of Rs.500 million. All the facilities have been transferred into non-performing category during the year 2020 and 2021.

- The Company's business has been suspended since October 2020 due to the non-renewal of production license. At present the, the Excise Department has issued the Ethanol license to start the manufacturing in Kalkudha plant and blending license to restart the blending of ENA at Welisara factory and already commenced the blending production on 02 September 2022.

- As per the auditor's report in 2017/2018, the going concern of the company is doubtful due to incurring of continuous losses and negative net assets position of the Company. However, the Bank has continuously granted loans

2. VFSI Holding Pte Ltd. and Shon Randhawa

3. Rajesh Viren Shah (HNIs)

During the period of 2018/2020 bank has granted several facilities with the intention of reviving the business.

As a result of above arrangements, the bank was able to recover due interest totaling Rs.300.0 Mn (approx.) and recover capital amount of Rs.550.0 Mn during the period of 2018/2020. Further, Bank was able to transfer Rs 2.3 Bn worth of facilities from non-performing category in to the performing category by 31.12.2018.

As per the request made by the company to reschedule their existing facilities, Bank was granted a reschedule package totaling Rs 3.1 Bn (including accrued interest of Rs 318.0 Mn) on 16.10.2020 based on the projected cash flows of the company.

However, proposed cash flow was not routed to the bank due to the fact that blending license and ethanol manufacturing license were not granted by the Excise Department and adverse economic condition in the country.

Company was granted all relevant licenses by the Excise Department in August 2022, subject to the repayment agreement of due excise payment to restart the blending and bottling operation and Start Ethanol (ENA) manufacturing at Kalkuda factory.

Company commence the blending

It is recommended to ensure that satisfactory customer evaluations have been performed by the bank before granting loans to a particular customers

without considering the going concern problem of the Company. production on 2<sup>nd</sup> September 2022 at Wealisara factory and the bank is in the process of negotiation with the company to grant a reschedule package in order to recover existing dues.

- The total outstanding balance of the customer as at 31 December 2021 is Rs.3,417 million. Out of total outstanding, Rs.858.6 million or 25 per cent is only secured against mortgage property situated at No. 309, Colombo Road, Welisara. The balance outstanding of Rs.2,558 million or 75 per cent is only secured against the mortgage over debtors and joint and several guarantees of two directors.

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

Reference to Laws, Rules Regulations etc.	Non Compliance	Management Comment	Recommendation
(i) Section 10.2.2 of Official Instruction Circular No. 23/2020 dated 10 September 2020.	When examining the valuation reports of 57 number of impaired ISL customers whose cash flows evaluated on collateral basis for the impairment, it was observed that 49 numbers of valuation reports are exceeded its validity period to the date of 31 December 2021. The Bank has not taken steps to obtain fresh valuation reports before the expiration of the valuation report.	Obtaining new valuation reports are in progress.	It is recommender to obtain fresh valuation report for all expired valuations.
(ii) Annexure II (d) of the Office Instruction Circular No.28/2015 dated 20 November 2020.	The maximum granted amount needs to be restricted to 60 per cent of the Bank's valuation of commercial immovable property offered as security for the facilities. However, in the following instances, the rate of advance exceeded the prescribed limit directed by the Bank. Though the necessary approvals have been	Considering the strength of the immovable property as the security than the movables and personal guarantors the high rate of advance had been considered with the approval of the respective Delegated Authority <b>Matale SGB Loan No 81860047</b>	Even though approval granted within the Delegated Authority, it is recommender to ensure that satisfactory

obtained to exceed the Rate of Advance the recoverability is doubtful due to over advancing. The details are depicted in the following table.

Branch	Loan No.	Loan Granted Amount (Rs' Mn)	Rate of Advance
Matale	81860047	10	90
Dehiwala	87921034	19.946	97.68
Pettah Super Grade	83021533	22	77.5
	80616471	6.88	86
	83705902, 83804150, 83842455, 83842477, 83864905, 76636343 (POD)	129.376	120.65
	81905345	16	78
	81905521	15.5	77.5
	83649075, 83649168, 83648984	26	69.76
	77628017	12.8	91
	85953934	5.3	91
	79110440	40	100

The branch confirmed that when proposing this loan facility of Rs.10Mn in 2017, the rate of advance was 54% of FSV+ BOQ. At Present, Branch already initiated recovery action of Parate action.

**Dehiwala Branch  
Loan Number 87921034**

Ashoka Glass & Mirror Pvt. Ltd.

This is a reschedule facility by amalgamating several facilities of the customer.

Since the customer was unable to provide additional securities for amalgamated portion facility was secured by the immovable property extending the ROA limit.

**Pettah Super Grade**

The said loans and overdrafts have been granted against mortgage over properties with relevant approvals including rate of advances. When granting credit facilities, we mainly focus on the cash flow of the company as the first repayment source & whatever the security is considered as the second way out. In addition to that, the credit worthiness, past performances & satisfactory repayments of already obtained loans & etc. will be considered. Further we assume that

1. With the regular repayment of loans, rate of advance will

customer evaluations have been performed by the bank before granting loans to a particular customers.

decrease favorably

2.Value of properties will appreciate in future

However, we are in the process of implementing the relevant recovery actions and procedures applicable to the said facilities.

(iii)	Bank of Ceylon Ordinance No.53 of 1938	The Bank has not complied with the minimum of 6 director's requirement as per the Bank of Ceylon Ordinance during the following periods. <ul style="list-style-type: none"><li>• 1 January 2021 – 17 February 2021</li></ul>	Legal Department has obtained the approval of the Board of Directors in respect of complying the minimum requirement of Directors to be appointed with BOC's Board. Further, we have included such other amendments as per the requirements of CBSL and Department of Public Enterprises.	It is recommender to comply with the requirement of Bank of Ceylon Ordinance No.53 of 1938.
			We have forwarded the same to the secretary to the Treasury under the signature of Chairman, BOC on 08.04.2022.	
			Upon an inquiry made from the Ministry of Finance, it has been revealed that the same is at the Legal Department of Ministry of Finance and they will forward the Draft of the BOC Ordinance amendments for Cabinet approval.	

## 1.8 Non -Compliance with Tax Regulations

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>	
(i)	In terms of section 25 C (1) of the Value Added Tax Act No 14 of 2002, every registered specified institution or any person shall be liable to tax for each taxable period on its total value addition which includes net profits or loss as the case may be before payment of income tax on	Inland Revenue department has not disputed to consider the said staff expenses as an emolument in the computation of VAT on FS liability.	It is recommender to comply with the requirement of section 25 C (1) of the Value Added Tax Act No 14 of 2002.



such profit computed in accordance with the accepted accounting standards, subject to adjustment for economic depreciation, emoluments payable to all the employees. However the bank has not considered Rs.70,016,639 worth of emoluments in order to calculate the total value addition. Due to this under recognition of emolument cost, the financial VAT amount has been understated by Rs.9,073,310. The emoluments which are not considered are given below.

<b>Ledger Account No</b>	<b>Description</b>	<b>Balance as at 31 December 2021 (Rs)</b>
62503002	CHGS A/C STAFF UNIFORMS	7,890,025.33
62503003	CHGS A/C HONOR PD FOR BANKING	23,251,637.20
62101012	EX-GRATIA PAY TO STAFF - DEC-99	2,000,000.00
62101019	ALLOWANCES PAID TO STAFF	36,550,976.82
62101018	EX-GRATIA PAY SECURTIA PAY SECURITY STAFF	324,000.00
<b>Total</b>		<b>70,016,639.35</b>

- (ii) According to Paragraph (2) of Public Enterprise Circular No PED 03/2016 dated 29 April 2016, PAYE Tax of public officers including employees of state-owned enterprises, should be deducted from tax liable employee earnings as per the relevant regulations of the IRD. However, the collective agreement signed between the Bank and Ceylon Bank's employee
- Based on the Collective agreement signed between the Bank and Ceylon Bank Employee Union the bank as the employer settles the income tax liability of the employees without being deducted from their salary.
- It is recommender to comply with the requirement of Paragraph (2) of Public Enterprise Circular No PED 03/2016 dated 29 April 2016.

union directs to pay the income tax liability of the employees by the Bank without being deducted from the employees' salary. Based on that, the Bank has paid Rs.39,912,162 as PAYE tax on behalf of employees for the year ended 31 December 2021, without deducting from employee's earnings.

## 1.9 IT General Controls

### Audit Issue

- (i) The user accounts of resigned employees were not deactivated and remained active after their resignation dates at the time of audit review as at 31 December 2021. The below table indicate a sample for the aforesaid issue.

#### ICBS

User ID	Status	Resignation Date (DD/MM/YYYY)
217788	Active	15/12/2021
191841	Active	25/12/2021

#### Pawning

User ID	Status	Resignation Date (DD/MM/YYYY)
217788	Active	15/12/2021
191841	Active	25/12/2021

#### C T Bills

User ID	Status	Resignation Date (DD/MM/YYYY)
217788	Active	15/12/2021
191841	Active	25/12/2021

#### Finacle Treasury

User ID	Status	Resignation Date (DD/MM/YYYY)
154500	Active	01/03/2021
173245	Active	24/08/2021

#### Sky Lease

### Management Comment

When there is a cessation of any employee, the cessation unit of HRO department inform the following relevant authorities to deactivate his/her passwords from systems.

- Special project
- Internal Audit Dept.
- IT Division
- Card Centre
- Signature Project
- Back Office
- SWIFT Centre
- Trade Services Project Unit
- Treasury Back Office
- Inward Remittances Dept.
- Treasury Division

### Recommendation

It is recommended to deactivate user accounts of resigned employees prior to the resignation.

User ID	Status	Resignation Date (DD/MM/YYYY)
217788	Active	15/12/2021
172388	Active	08/02/2021

Noted to strictly follow in future

**Smart Remit**

User ID	Status	Resignation Date (DD/MM/YYYY)
194291	Active	30/04/2021
173310	Active	11/06/2021

**ICBS System**

PF217788 & PF191841 already deleted.

**Pawning System**

Actions have been taken to rectify by 31.12.2022

**C T Bills**

PF 217788 & PF191841 already deleted.

**Finacle system**

Users are deactivated

**SKY Lease**

PF217788 & PF191841 users have been deleted

**SMART Remits**

Users were on expired state and users were deactivated.

- (ii) It was observed that the following user accounts are duplicated and remained active in ICBS, Base24 and Smart Remit systems. Below tables indicate a sample of for the above issue.

**ICBS**

PF Number	Username	Status
120224	PF120224	Active

**ICBS System**

Some users have different use rids for different job roles, hence different suffixes are being used.

It is recommended to remove duplicated logins on within the stipulated time target.

120224	PF120224A	Active
120224	PF120224IC	Active
128793	PF128793	Active
128793	PF128793A	Active
128793	PF128793IC	Active
140096	PF140096	Active
140096	PF140096A	Active
140096	PF140096IC	Active

PF120224, PF128793& PF140096 are Application Managers attached to the Special Project and they need these user Ids active for different job roles.

**Base 24**

User ID	User Name	Status
139401	PROD.IT139401	Active
139401	SEC-IT139401	Active
203810	PROD.IT203810	Active
203810	SEC-IT203810	Active

**Base 24**  
Different roles of the system have to be performed using different user roles according to the system architecture.

**Smart Remit**

loginid	User Type	Status
168197	AGENT	Active
168197	BOC BRANCH	Active

**Smart remit System**  
During the implementation period same Id created as an agent for inquiry purposes and now it is removed. Duplicate item was removed from the system.

Target date:- 31.12.2022

(iii) It was observed that non-utilized user accounts exist in Sky Lease system as at 31 December 2021, since below users had not logged into the system during the financial period. The following tables indicate a sample for above issue.

User creation is handled at the branch level, assigning authority and the user deletion is It is recommended to rectify issues within the stipulated time target.

User ID	Branch	Last Login Date (DD/MM/YYYY)	Status
877560287V	B Grade - Hambanthota	18/02/2020	Active
133285	Bank of Ceylon	User has not logged into the system	Active
141953	City Office	18/06/2013	Active
155342	Bank of Ceylon	16/05/2017	Active
177453	Bank of Ceylon	27/01/2014	Active
177479	Bank of Ceylon	24/07/2013	Active
128604	North Western Province	16/10/2020	Active
130457	2 <sup>nd</sup> City Kurunegala	User has not logged into the system	Active
166795	Urubokka	10/10/2013	Active
167016	DGM Branches Division	15/05/2015	Active
167298	Thawalama	24/07/2013	Active
168981	Bank of Ceylon	22/12/2017	Active
169210	Jayanthipura	28/01/2020	Active
169533	Agalawaththa	User has not logged into the system	Active
169880	Area 3 NCP	User has not logged into the system	Active
169939	North Central Province	31/01/2020	Active
194465	DGM Branches Division	27/08/2015	Active
200270	Moratumulla	27/04/2015	Active
200452	Baddegama	17/11/2017	Active
211079	Narahenpita	02/11/2018	Active

performed by the application manager.

Actions have been taken to rectify. Target date:- 31.12.2022

214479	WPS Area 2	User has not logged into the system	Active
216756	Mount Lavinia	17/10/2018	Active
228983	Kegalle Area	User has not logged into the system	Active
193194	Hatharaliyadda	17/09/2018	Active

- (iv) It was observed that the Bank has not defined adequate password parameters for the application level security configurations of the below systems and shortcomings are depicted in the below table.

Password Parameter	Application	Applied Setting	Leading Practice
Minimum password length	Finacle Treasury	6 Characters	8 Characters or more.
	Sky Lease	6 Characters	
	Trade Finance	6 Characters	
	Base 24	6 Characters	
	Inventory and Assets Management	6 Characters	
Initial log-on users a one-time password	Trade Finance	Not Defined	Yes
Password Complexity	Trade Finance	Not Defined	Enable
Frequency of forced password changes. *	Trade Finance	90 Days **	90 Days-4 Password
	Smart Remittance	Not Defined	
Number of passwords that must be used before using a password again. *	Trade Finance	1 password	
	Smart Remittance	Not Defined	

**Minimum password length of Finacle Treasury, Sky Lease, Trade Finance, Base 24 & Inventory and Asset Management systems,**

Technical capability exists; business / user impact has to be reviewed.

**Trade Finance system**

New Trade Finance system is complied with the said requirements

**Smart remit system**

Lack of these features in Smart Remit system have been informed to the vendor. Changed with the recent re work done in Smart Remit.

It is recommended to defined adequate password parameters for the application level security configurations.

Idle session logout time	ICBS	30 Minutes	15 Minutes or less
	Finacle Treasury	30 Minutes	
	Trade Finance	Not Defined	
	Smart Remittance	20 Minutes	

\* These two parameters must be set in conjunction with each other to avoid the use of the same password for at least one year.

\*\* This parameter is adequately set.

- (v) It was observed that segregation of duties does not exist within the manage change process as per the sample selected for the ICBS and Finacle Treasury. Such issues are indicated in below table.

**ICBS**

Change Number	Change Description	Change Developed By	Change Developed By
CSO 5034607	User ID not appearing for cheque book orders done through Communicator Service – Report TA0800P1	DHA Jayarathne-Senior System Analyst	DHA Jayarathne-Senior System Analyst
BOCLP24	Loan Maintenance Logging (post Implementation fix)	DHA Jayarathne-Senior System Analyst	DHA Jayarathne-Senior System Analyst
BOCLP23	Implementation of debit card green pin	DHA Jayarathne-Senior System Analyst	DHA Jayarathne-Senior System Analyst
BOCLP27	Implementation	DHA	DHA

**ICBS**

Defining of different session timeouts for different users is essential in the ICBS system depending on their job roles, however this facility is not available in the current ICBS System.

**ICBS**

All these fixes sent by the application vendor (Fiserv) and they are not developed by DHA Jayarathne

It is recommended to take necessary action to segregation of duties in identified systems.

**Finacle Treasury**

Addressed. Issue has occurred due to the resource limitations and will be rectified in the future deployments.

	of debit card green pin	Jayarathne-Senior System Analyst	Jayarathne-Senior System Analyst
CSO05551955	Issue on S/O credit reversals coming transaction codes IBSD & IBCD	DHA Jayarathne-Senior System Analyst	DHA Jayarathne-Senior System Analyst

### **Finacle Treasury**

<b>Change Number</b>	<b>Change Description</b>	<b>Change Developed By</b>	<b>Change Developed By</b>
05	Addition of new currency (THB) into Exchange Rates circular in Finacle Treasury System and publish cared rates to core banking system	SMSC vipulasena-System Analyst II	SMSC vipulasena-System Analyst II

## **2. Financial Review**

### **2.1 Financial Result**

The operating result of the year under review amounted to a profit of Rs.37.6 Billion and the corresponding profit in the preceding year amounted to Rs.17.8 Billion. Therefore an improvement amounting to Rs.19.8 Billion of the financial result was observed. The main reason for the improvement is the increase of interest income by Rs.34.2 billion or 15 per cent in the year under review when compare with the corresponding year.

### **2.2 Trend Analysis of major Income and Expenditure items**

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



<b>Description</b>	<b>Variance Amount Increase/ (Decrease) (Rs' Bn)</b>	<b>Variance %</b>	<b>Reason for the Variance</b>
Interest Income	34.2	15	<p>Interest income has increased mainly due to increase of gross loans and advances and the investments in the year under review when compare with the preceding year.</p> <p>Gross loans and Advances for the year under review have been increased by Rs.461.5 billion or 22 per cent when compare with the preceding year.</p> <p>The total investment for the year under review has increased by Rs.338 billion or 43 per cent when compare with the preceding year. The main reason for the increase is investment in treasury bonds in order to settle the DST over draft.</p>
Interest expense	(2.2)	2	<p>Interest expense has decreased due to low interest rates prevailed throughout the year.</p> <p>However the deposit base of the bank has increased by Rs.392.1 billion or 16 per cent in the year under review when compare with the preceding year.</p> <p>The borrowings have also increased by Rs.263 billion or 146 per cent in the year under review when compare with the preceding year.</p>
Impairment Charges for loan and other losses	12.5	40	<p>Impairment charge has increased mainly due to increase of stage II and III loan exposure, provision made for government and SOE foreign currency denominated loans and other investments, increase of impairment provision on risk elevated industries such as tourism and construction and increase of stage I impairment provision due to increase of stage I loan portfolio of the Bank.</p>

## 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	
		2021	2020
<b>Performance Ratios</b>			
Return on Equity (ROE)	10.9	21.0	11.9
Return on Assets (ROA)	1.0	1.3	0.9
Interest Margin	3.1	3.3	2.8
<b>Assets Quality Ratio</b>			
Gross Nonperforming Advances (NPL)	4.7	5.1	5.0
<b>Capital Adequacy Ratios</b>			
Tier 1 Capital (Minimum 9%)	13.1	14.3	11.2
Total Capital (Minimum 13%)	16.7	17.8	14.9
<b>Statutory Ratio (Minimum Requirement 20%)</b>			
Liquid Assets Ratio (Domestic)	33.8	25	26.6

\* Sector ratios were extracted from the Annual Statistics published by the Central Bank of Sri Lanka.

## 3. Operational Review

### 3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(i) The Former General Manager of the Bank has purchased his assigned vehicle at retirement as per the Remuneration Policy of the Bank. Following observations are made in this regard.	Relevant Board Approval available. (Minute No.19.08.2021/4.2)	It is recommended to implement proper internal control mechanism to assigning pool vehicle to eligible persons.
<ul style="list-style-type: none"> <li>The Bank has assigned a pool vehicle (Toyota Land Cruiser Prado Diesel Vehicle) to the former General Manager at the time of assuming duties as acting General Manager of the Bank instead of his earlier assigned vehicle (Nissan XTrial Jeep) in the capacity of Deputy General Manager. Board approval or any legitimate document was not available for this assigning instead of a minute placed by the transport manager in the relevant vehicle file.</li> </ul>	<p>Mr. Gunasekara has signed the memorandum in the capacity of General Manager.</p> <p>The transaction effected as per the Board Approval. (Minute</p>	

- Lack of internal control mechanism was observed when assigning pool vehicle to eligible persons. No.19.08.2021/4.2).
- A conflict of interest was observed when the former General Manager signed the memorandum to the chairman by seeking the approval to transfer the ownership of assigned vehicle to himself.
- The Human Resources and Remuneration Committee at its meeting held on 16 August 2016 recommended in principal that a General Manager of the Bank who will have minimum of 3 years' service in the Bank as the General Manager should be permitted to obtain a new vehicle 2 years prior to his retirement, with a view to maintaining the dignity of a retired General Manager of the Bank. However, the retirement benefit section of the bank's Remuneration Policy has not been amended by incorporating the above changes. As per the above amendments it was observed that the former General Manager is entitle only to purchase the vehicle of Nissan XTrial Jeep, which is earlier assigned to him in the capacity of Deputy General Manager of the Bank.

- (ii) The Bank has opened LCs to import vehicles during the vehicle importation restricted period on behalf of the Ministry of Finance. The following observations are made in this regard.
- All the LCs were open with the approval of Import and Export Controller. It is recommended to open LCs with appropriate approvals.
- As per the letter No. BD/GPS/13/01/2021 dated 18 March 2021 issued by the Ministry of Finance, the Bank has opened 8 Numbers of LCs on 21 April 2021 to import 225 number of motor jeeps, 50 number of double cabs, 50 number of high roof ambulance and 50 number of water bowsers for the Ministry of Finance. As per the Trade Services Department, LC was opened on 23.04.2021 and 29.04.2021, which was after the obtaining of approval of the Import and Export Controller.
  - The Cabinet approval has not been obtained to overcome the ban imposed on vehicle importation during that time.
  - The approval of the Import and Export Control Department was granted on 23 April 2021 which is after opening of LC facilities on 21 April 2021. Cancellation of LCs were done on the request of Ministry of

- Subsequently, 03 number of LCs, which are opened to import 225 numbers of Brand New Toyota Land Cruiser Prado jeeps were cancelled based on the request made by the Ministry of Finance through their letter dated 28 May 2021. Although the LCs were cancelled without a hassle, it is clear that the bank has taken a high risk in opening the LCs without obtaining necessary approvals. Otherwise the bank may have to incur a cost of Rs.6,047,048 as a penalty for the cancellation.
  - The proposed interest rate for the financial lease of imported vehicles is 7.5% p.a. which is below the market interest rate.
  - Though some of imported vehicles have already been distributed to several Ministries and Departments, leasing facilities have not still been created for the distributed vehicles.
  - All the vehicles have been imported to Sri Lanka in October 2021 with the total payment through LCs by the Bank. The Bank has approximately incurred Rs.1,140 million in LKR terms for the importation of these vehicles. Although 11 months have passed since importation, the Bank did not receive any leasing payment for the vehicles up to now.
  - The absolute ownership of all imported vehicles is with Bank even though some vehicles have been registered and distributed to the other government institutions. The Bank is bearing a high risk due to possible damages or losses to these vehicles during their usage by other institutions.
  - 35 number of water bowers and 4 number of Hilux cabs were not distributed and not registered due to not having predetermined requirement for importation or even a current plan to distribute them among required parties. An insurance premium for these undelivered vehicles is paying by the Bank which resulted a considerable cost to the Bank. An insurance premium amount of Rs.1, 034,982 has been paid by the Bank for the period of October 2021 to August 2022.
- Finance. Ministry of Finance has requested to cancel the same after the negotiation had with the respective parties.
- Market rate was at lower at the time of requesting lease facilities and the time of opening LCs. Also, several requests were sent to the Ministry of Finance, for requesting to apply higher rate of interest.
- Requests were not accepted. All the leasing facilities were activated on 21.10.2022.
- As per the agreement, 7.5% annual interest will be charged for the pending period.
- Comprehensive Insurance has been obtained for each vehicle by the respective Government Institution and assigned to the Bank of Ceylon.
- Distribution of vehicle is done by the Ministry of Finance.

- 25 numbers of ambulances which are not ready for the immediate delivery are removed from the insurance coverage since March 2022. Therefore, there is no way to claim the damages if there is any damage happened to these ambulances in the yard since lease facilities are still not created by the Bank and the absolute ownership is still vested with Bank.

Insurance cost paid by the bank has added to the amount financed of the lease facilities.

Respective yard insurance has already been taken by the assigned institution.

- (iii) Based on a Cabinet Approval granted on 19 October 2020 and as conveyed by the Ministry of Urban Development and Housing (MUDH) through letters dated 06 November 2020 and 17 November 2020, MUDH had sought the temporary handover of 3 developed properties of the bank to the Sri Lanka Army to startup quarantine Centers for COVID-19 affected persons. Subsequently another 2 properties have been transferred based on the request from the Secretary, Ministry of Defense. Covering approvals from Board of Directors have been obtained subsequent to the handing over of properties. This handover has been made on temporary basis and any formal agreement has not been entered by the Bank in this regard. As well the Bank had not negotiated the compensation prior to transfer of devolved properties.

Comments Noted.

It is recommended to adhere the Section 49 of the Banking Act No.30 of 1988.

At present the properties are going to be acquired by GOSL under the Land Acquisition Act for Urban Development Activities. The CBSL has pointed out that there will be a potential violation of Section 49 of the Banking Act No.30 of 1988 due to bank's failure to negotiate the compensation prior to transfer of devolved properties and the possibility of the value determined by the Government Chief Valuer being below the market value of such properties. The valuation of Government Chief Valuer is still pending.

The following table depicts the details of 5 devolved properties.

No	Description of the Property	Facility Transfer Date	Board of Director Approvals Date
01	Tri-Star Apperal Export (Pvt) Ltd - No 30, Maligawa, Rathmalana	10/11/2020	03/12/2020
02	Kamal Cables (Pvt) Ltd - No 30, Kandawala Rd, Rathmalana	10/11/2020	03/12/2020
03	Tri-Star Apperal Export (Pvt) Ltd - No 88, Telwala, Rathmalana	14/12/2020	03/12/2020
04	Tri-Star Apperal Export (Pvt) Ltd - No 154, Rahula Mw, Katubedda, Moratuwa	16/02/2021	18/03/2021
05	Tri-Star Apperal Export (Pvt) Ltd - No 29/5, Kandawala Rd, Rathmalana	16/02/2021	18/03/2021

### 3.2 Idle or Underutilized Property, Plant and Equipment

#### Audit Issue

An extent of 163,890 square feet of a 6 storied building out of total extent of 261,610 square feet situated at York Street belonging to the Bank had been used by the Metropolitan Branch and Western Province North Office up to the year 2013 and the rest of floor areas are still being used by the Hotels Colombo (1963) Ltd. A considerable area or more than 60 per cent of the building is being idle since 2013. As per the valuation report dated

#### Management Comment

The matter is pending for further decision.

#### Recommendation

It is recommended to speed-up the transferring process.

17 October 2016, the value of the land and building was Rs.3,413 million.

The approval of Board of Directors has obtained to consolidate Hotels Colombo (1963) Limited (GOH) with Selendiva Investments Limited (SIL) and transfer the ownership of York Street Building (YSB) to SIL as per the cabinet approvals dated 04 March 2020 and 08 July 2020. However the transferring process is still in progress.

### 3.3 Procurement Management

Audit Issue	Management Comment	Recommendation
(i) A procurement plan had been prepared by the Bank for the financial year 2021 according to the paragraph 4.2 of the Procurement Guideline issued by the Bank of Ceylon. However, the procurement plan does not give adequate details as prescribed in Section 4.2.1 of the Procurement Manual issued by the National Procurement Agency in 2006.	Arrangements will be made to rectify these gaps in the oncoming procurement plan. Target Date:- 31.01.2023.	It is recommended to approve procurement plan within stipulated time.
(ii) Considerable deviations were observed when analyzing the progress achieved against the target procurement activities of the Bank during the year 2021. The details are summarized below.	Funds were utilized based on the situation prevailed at that time despite the allocation of budget.	It is recommended to prepare annual budget based on the actual situations.

Procurement Type	Budget for the Year 2021 (Rs.'000)	Actual Expenditure for the Year 2021 (Rs.'000)	Variance (Rs.'000)	Variance %
Office machines/ Office equipment	358,340	56,556	301,784	84%
Furniture	55,209	37,724	17,485	32%
Security equipment	207,000	1,475	205,525	99%
Vehicles	405,000	-	405,000	100%
Computer equipment	5,351,500	884,035	4,467,465	83%

Constructions/ Building Projects	3,748,680	1,232,425	2,516,255	67%
Purchase of new Lands	1,105,500	25,062	1,080,438	98%
Purchase for Ceybank Holiday Homes (Pvt) Ltd	36,241	23,414	12,827	35%
Contingencies	100,000	-	100,000	100%
<b>Total</b>	<b>11,367,470</b>	<b>2,260,691</b>		

### 3.4 Human Resources Management

#### Audit Issue

- (i) The vacancies of the Bank for the financial year 2021 are depicted in the following table.

Level	Approved Cadre	Actual Cadre	Vacancies	Vacancies (as a % of Approved Cadre)
Corporate Level	20	17	3	15
Executive Level	56	55	1	2
Operational Level	10,848	9,705	1,143	11
<b>Total</b>	<b>10,924</b>	<b>9,777</b>	<b>1,147</b>	<b>10</b>

It was observed that 15 per cent staff of corporate level, 2 per cent staff of executive level and 11 per cent staff of operational level are vacant as at 31 December 2021.

#### Management Comment

CIO position is the only vacant position in Corporate level and there are no vacancies in Executive level position as at 27.10.2022. The bank is in the process of recruiting a CIO on contract basis. And also, the bank has promoted many employees to fill the vacancies in higher grades and called applications to

#### Recommendation

It is recommended to take necessary steps to recruit the employees for the vacant positions to ensure smooth functioning of Bank's activities.



- (ii) 01 Assistant General Manager, 12 Chief Managers, 64 Senior Managers, 61 Managers, 167 Executive officers, 578 Junior Executive Officers, 44 Confidential Secretaries, 360 Staff Assistants, 132 Secretaries, 50 Technicians, 231 Security Staff and 06 Security Officers were included in the vacancies of executive and operational levels.

fill the entry level vacancies.

The bank has promoted 36 Chief Managers on 08.03.2022, 77 Senior Managers on 21.12.2021, 162 Managers on 14.12.2021, 381 Executive Officers on 05.08.2021, and 50 Staff Assistants on 08.02.2022, 06 Security Officers on 25.10.2022 and promotion assignments may delay with operational issues. Furthermore, the bank has called applications from external candidates to fill the vacancies for entry level positions such as Trainee Staff Assistants, Management Trainees, System Analysts/ Network

It is recommended to take necessary steps to recruit the employees for the vacant positions to ensure smooth functioning of Bank's activities.

Engineers,  
 Trainee  
 Secretary  
 Assistants, etc.  
 However, these  
 recruitments  
 could not be  
 completed due  
 to the  
 government  
 directions to  
 suspend all the  
 recruitments in  
 the state sector  
 (as per letter  
 dated  
 26.04.2022 and  
 08.08.2022  
 issued by the  
 Secretary to the  
 Treasury).  
 But the bank is  
 in the process  
 of obtaining the  
 necessary  
 approvals to  
 recommence  
 the stagnated  
 recruitments.

**4. Accountability and Good Governance**  
**4.1 Corporate Plan**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The progress achieved for selected target activities of the Bank as per the Corporate Plan prepared for 2020 – 2022 are given below.	Comments Noted	It is recommended to prepare Corporate Plan in realistic basis.

<b>Division</b>	<b>Objective as per the Corporate plan 2020-2022</b>	<b>Actual 2020</b>	<b>Expectation 2021</b>	<b>Actual 2021</b>	<b>Remarks</b>
International	Improve the profitability of the Gold shop by 10 percent annually.	9.1 Mn	10.01 Mn	41.8 Mn	Profitability of Gold shop has increased by 359 percent during the year 2021 by exceeding the target increase.
	Increase fee and commission income of the International division by 15 percent.	445 Mn	511.75 Mn	884 Mn	Instead of 15 percent target, fee and commission income has increased by 98.7 percent.
	Increase business volume at BIA Counters by 10 percent per annum.	1,378.12 Mn	1,515.932 Mn	2,098.12 Mn	Instead of 10 percent target, business volume at BIA Counters has increased

					by 52 percent.
Treasury	Enhance the foreign exchange income by 10 percent per annum.	4,111 Mn	4,522.1 Mn	8,856 Mn	Foreign exchange income has increased by 115.4 percent during the year 2021.
<b>Overseas Branches</b>					
Increase credit portfolio of overseas branches by 10 percent	Advances - Chennai Branch	10,168 Mn	11,184.8 Mn	11,257.5 Mn	Advances increased by 10.7 percent during the year 2021.
	Advances - Male Branch	31,888.06 Mn	35,076.86 Mn	36,613.97 Mn	Advances increased by 14.8 percent during the year 2021.
	Advances - Seychelles Branch	1,078.94 Mn	1,186.834 Mn	1,845.73 Mn	Advances increased by 71 percent during the year 2021.

## 4.2 Internal Audit

### Audit Issue

### Management Comment

### Recommendation

- (i) The progress achieved against the audit plan by the internal audit division during the financial year 2021, is given below.

Description	Target	Actual	Difference
	2021	2021	
Full Branch Audit & Province office Audit	136	161	25
Branch Surprise Audits	70	164	94
Branch Audits – Follow up	2	72	70
Head Office Divisional Audits	89	121	32
Information System Audits	1810	1770	(40)
<b>Total</b>	<b>2107</b>	<b>2287</b>	<b>180</b>

Comments Noted

It is recommended to achieve internal audit plan as targeted.

- (ii) The staff vacancies of the internal audit division during the financial years of 2020 and 2021 are given below. Fifty one (51) numbers of vacancies were observed in the Internal Audit Division during the financial year 2021 when compared with the approved cadre of 187 employees. The similar number of vacancies were observed during the previous year as well and satisfactory actions have not been taken by the relevant authorities to fill the vacancies.

96 employees to Head office and 41 employees to provinces were assigned to Internal Audit Department and only 5 vacancies as at 27.10.2022 as per the approved cadre for 2022. The remaining 5 vacant positions will be filled with future recruitments, promotion assignments and transfers.

It is recommended to take necessary steps to recruit the employees for the vacant positions to ensure smooth functioning of internal audit division.

Staff Category	No. of Vacancies	
	As at 31 December 2021	As at 31 December 2020
Chartered Accountants non-banking	02	07
Chief Manager/	10	09

Target date :-

Senior Manager		
Branch Manager	07	15
Assistant Manager	06	04
Executive officer/ Executive Audit Officer/ Junior Executive Officer/ Junior Audit Officer	25	15
Staff Assistant/ Audit Assistant	(03)	(01)
Confidential Secretary	05	05
Secretary Assistant	(01)	01
<b>Total</b>	<b>51</b>	<b>55</b>

31.03.2023

### 4.3 Budgetary Control

#### Audit Issue

Significant variances ranging from 16 per cent to 47 per cent were observed when comparing the budgetary provision with the actual results of the Bank. Details are given below.

#### Management Comment

Comments Noted

#### Recommendation

It is recommended to improve efficiencies of the Bank in order to achieve budgetary targets.

*Rs Mn*

Description	Actual 2021	Budget 2021	Variati on 2021	Variati on %
Total Income	290,362	249,300	41,062	16.47
Operating Profit before VAT & NBT	52,217	42,258	9,959	23.57
Net Profit before Tax	43,190	33,682	9,508	22.50
Tax Expenses	5,599	8,084	2,485	30.74
Net Profit for the Period	37,590	25,598	11,992	46.85