

State Mortgage and Investment Bank - 2021

1.1 Opinion

The audit of the financial statements of the State Mortgage and Investment Bank for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of income and the 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 and 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 give a true and fair view of the financial position of the Bank as at 31 December 2021, 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

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

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Company'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 Company 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 Audit Observations on the preparation of Financial Statements

1.5.1 Documentary Evidences not made available for Audit

Audit Issue

Following long term ledger balances as at 31 December 2021 were being remained in the ledger since 2018. Evidences for those balances were not received to the audit.

Account Name	2021
Dues on Provisionally Closed Accounts	265,318
Security Deposit - Rented Buildings	1,704,202
Sundry Deposits	877,105

Management Comment

Dues on Provisionally closed account.

As shown these loan receivables written off were less than approval granted by the Board of Directors. Main reason for above difference is subsequent settlement of BPO by the customers during the assessment date of write-off and implementation date of the write-off. This balance will be cleared in 2022. Security Deposit- Rented building

Legal actions have already been contemplated against the respective owners of the building to recover such balances.

Sundry deposits

This balance has been cleared by now.

Recommendation

Long outstanding balances should be cleared at a reasonable time by the bank

1.6 Accounts Receivable and Payable

1.6.1 Payables

Audit Issue

- a) It was observed that an extra amount received from a customer after the date of closing his loan, had been credited to

Management Comment

Audit observation on possibility of occurring fraud on customer refund account is not acceptable

Recommendation

Necessary actions should be taken to refund this kind of balances within

- the ledger account named “**Customer Refund Closed Loan Account**”. It was further observed that, the charging extra money without informing the customers is unreasonable and the balances in this account may lead to occurring frauds.
- due to the fact that any receipts on customer accounts are directly credited to either customer loan account or his/her saving account. reasonable period.
- b) In some instances, when recovering EPF loans, claims received were higher than the outstanding amount. Some claims had been received for zero outstanding loan balances as well. These extra claims had been transferred to the ledger account named “**Customer Refund Closed Loan Account**”. It was observed that obtaining claims without informing customers is unreasonable.
- The details of arrears statements for the claim are generated at the end of December position and furnished same to the CBSL during the month of January in the following year to recover arrears amount from respective EPF balances of the customers. However, some clients have settled their loans fully after submission to the claim to the CBSL. After receiving of EPF claim from the CBSL, the claim received with respect to repaid loan accounts were credited to customer refund account. After that the relevant excess balance were transferred to the client’s SMIB savings account, in addition to that refund vouchers were also sent to the client to those who have not maintained savings account with the bank. Until the refund voucher is signed and return to us by the client, the excess amount is shown in the customer refund account.
- Bank should take necessary action to inform and refund this kind of balances to customers within reasonable period.
- c) Payments made by customers to settle their loans had been credited to a ledger account named “**Un Appropriated Loan Balance Account**”. Total amount of cash receipts at the end of the year 2021 to the above account was Rs.67,298,726 relating to 18,542 number of loans. Details are given bellow.
- UAB in the customer account represent payments made by the customers to their loan account with multiple reason such as;
- Payments made higher amount than given monthly installment.
 - Payments made by client more than the balance principle outstanding –
- Balances should be identified and cleared within reasonable time.

Year	No. of Loans	Amount
Before 2019	2761	5,998,395
2019	1543	4,388,457
2020	8490	3,955,276
2021	5748	52,956,598
Total	18542	67,298,726

waiting for completion of final settlement process of the loan.

- Payments made by customers for future monthly instalments.

Current status of such balances is mentioned bellow.

Year	Amount
Before 2019	3,725,684.22
2019	1,627,446.43
2020	6,326,483.82
2021	6,091,260.63
Total	17,770,875.10

As shown above, the balance has reduced to Rs. 17.8 Million due to subsequent recoveries from respective customers.

1.6.2 Advances

Audit Issue	Management Comment	Recommendation
a) Gross non-performing loans and advances including EPF loans was 19.84 percent and gross non-performing loan advances excluding EPF loan was 9.19 Percent from the total loan and advances of the bank as at 31 December 2021. This is higher than the industry ratios of 6.5 Percent.	The Bank has made several steps to reduce NPL. Specially, COVID outbreak severely affected loan holders' income & the Bank has granted 03 rd wave & 04 th wave moratorium during the year 2021. Reduction of the Bank's NPL of 14.19% was higher than the reduction of the industry's NPL of 5.80%.	NPL ratio of the bank should be maintained at a minimum level.
b) Nine branches were recorded higher NPL ratios than the overall NPL ratio of 19.84 percent of the Bank. The details are given below.	Reported NPL ratio of the branches represent NPL ratio of 100% cash loans granted against EPF balances of customers. The following table depicts that NPL ratio excluding EPF loans of the branches is less than recorded NPL	NPL ratio of those branches should be maintained at a minimum level.

Branch	NPL Ratio (%)
Hatton	85.27
Chilaw	20.30
Rathnapura	20.36
Gampaha	34.92
Kegalle	27.52
Kiribathgoda	22.89
Horana	22.51
Matugama	21.38
Matale	23.76

ratio. Details are given below.

Branch	NPL Ratio
Hatton	6.82%
Chillaw	11.91%
Rathnapura	11.38%
Gampaha	13.90%
Kegalle	5.64%
Kiribathgoda	12.20%
Horana	18.44%
Mathugama	10.07%
Matale	10.59%

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
a) Para No '4' of the Presidential Secretariat Circular No. PS/GPA/Circular/36/2020 dated 10 December 2020.	Annual advertising program prepared accordingly and recognized by the board of management for the incorporation into the annual action plan should be submitted to the Department of Public Enterprises (PED) for approval. However, the bank has incurred advertising expenses for the financial year 2021 without obtaining the relevant approval.	Noted for future compliance.	Bank should comply with relevant circulars.
b) Paragraph 10.11.1 of Finance Circular No.01/2020 dated 28 August 2020.	Though the damage assets are allowed to dispose after 30 April of the next financial year, the Bank has kept damage assets in several places in the head office building without disposing.	Due to the limited space of the bank, there is a problem to properly store the decommissioned fixed assets and the assets were disposed in the year 2019. After the survey of the related goods on 31.12.2021,	Bank should comply with relevant circulars.

arrangements have already been made to dispose all damaged assets before end of January 2023.

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|----|--|--|---|--|
| c) | Public Enterprises Circular No. PED 03/2016 dated 29 April 2016. | Bank had paid Pay as You Earn (PAYE) tax amounting to Rs.2,058,589 for the year 2021 out of its own funds on behalf of its employees instead of being deducted from the salary. | Payee Tax has been paid according to provision in the collective agreement. This practice is expected to be discontinued with effect from January 2023. | Bank should comply with relevant PED circulars. |
| d) | Section 3.1.i.e of the Banking Act Direction No.12 of 2007. | Even though the Board of directors should review the adequacy and the integrity of the Bank's internal control systems and management information systems, currently the Bank uses AS 400 as their MIS system which does not facilitate the industry requirement in terms of generating information and reports. | The Bank has selected a company to implement a new Core Banking System. Implementation process is currently in progress. | Bank should comply with Banking Act direction. |
| e) | Section 3.5.(ix) of the Banking Act Direction No 12 of 2007. | Even though the Chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever, it was observed that the chairman had involved with appointing key management personal of the Bank.
Eg: Appointment letters of the Head of risk Management, DGM Finance & Planning and Board Secretary have been signed by the Chairman in 2021. | This concern is not acceptable. According to the SMIB Act No. 13 of 1975, power on recruitment of the employees of the Bank is vested with the Board of Directors. The Chairman has signed the appointment letters of such Key Management Personnel after getting the approval for recruitments by the Board of Directors. Further, the GM/CEO and all other have a delegated authority given by the Board of Directors. Therefore, the | Board of Directors should comply with the Banking Act direction. |

Chairman and the Board could exercise the authority whenever it is required and think prudent.

- f) The Clause No.02 of PED 1/2015(1)
- The chairman may be entitled to use only one official vehicle and a fuel allowance equivalent to 150 liters per month or monthly allowance and other facilities specified by the treasury whichever is less. However, it was observed that the following facilities were entertained by the chairman while using the official vehicle bearing number WPKR-5664 which is given by the ministry of finance and policy development.
- The vehicle bearing number KK-8977 had been assigned to the chairman by the bank on a request by the secretary to the chairman dated 08 February 2022.
 - The bank has paid Rs.1,200,000 to the chairman as transport allowance for 24 months from January 2020 to January 2022.
- This concern is not acceptable. Even though the Bank has obtained a vehicle from the Ministry of Finance, the said vehicle was not reliable for use of the Chairman at the time of acquisition. Hence, this vehicle was not assigned to the Chairman. This vehicle has been used for different requirements of the Chairman's Office and other affairs of the Bank during the period from 08.02.2020 to 23.08.2022. Due to the poor running condition of the vehicle bearing the registration No. KR-5664, the Chairman has agreed to use his own vehicle according to the provision in Circular No. PED1/2005 dated 27.10.2016. Accordingly, monthly transport allowance of Rs. 50,000/- has been paid for the period from January 2020 to January 2022. During the said period, the Chairman has not used the vehicle bearing the registration No.KK-8977. Payment of vehicle allowance has
- Bank should use it's assets efficiently and comply with relevant circulars

been stopped with effect from February 2022 after the allocation of the official vehicle number KK-8977.

1.8 Cash Management

Audit Issue	Management Comment	Recommendation
The unidentified deposits account balance as at 31 December 2021 was Rs.1,337,125 and out of the above balance, Rs 504,137 has not been identified since more than two years period.	<u>Un Identified Deposits</u> Deposits made by the customers to our collection accounts with insufficient information on deposit slips such as loan reference number, full name, savings accounts number have been resulted to such unidentified deposits. It is required to maintained these deposits in our books until presence of the customers with customer copy on deposits made. Such UI balance has now been reduced to Rs.1,045,768 as at 30.11.2022.	Preventive control to avoid of repeating this kind of error should be made.

1.9 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation																
Bank has not made an amendment to the VAT Return for the period from 01 June 2020 to 31 December 2020 (2021) in accordance with the Audited Financial Statements for the year ended 31 December 2020, up to date of audit of 31 January 2022. Details are as follows	Time bar on VAT 2020/2021 Time bar on amendment on VAT on Finance Annual Return for the year of assessment 2020/2021 is still within the validity period. We have already advised our Tax Consultant to take steps to amend the return before expiry of the time bar.	Bank should comply with the guideline issued by the Department of Inland Revenue.																
<table border="1"> <thead> <tr> <th>Description</th> <th>As per the Audited Financial Statements (Rs.)</th> <th>As per the Return on VAT on FS (Rs.)</th> <th>Difference (Rs.)</th> </tr> </thead> <tbody> <tr> <td>Profit before Tax</td> <td>572,071,220</td> <td>578,856,477</td> <td>6,757,285</td> </tr> <tr> <td>VAT on Supply of FS charged to Income Statements</td> <td>218,205,322</td> <td>219,223,111</td> <td>1,017,789</td> </tr> <tr> <td>Emoluments</td> <td>872,736,805</td> <td>868,229,444</td> <td>(4,507,361)</td> </tr> </tbody> </table>	Description	As per the Audited Financial Statements (Rs.)	As per the Return on VAT on FS (Rs.)	Difference (Rs.)	Profit before Tax	572,071,220	578,856,477	6,757,285	VAT on Supply of FS charged to Income Statements	218,205,322	219,223,111	1,017,789	Emoluments	872,736,805	868,229,444	(4,507,361)		
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1.10 IT General Controls

Audit Issue	Management Comment	Recommendation
<p>a) Following deviations were observed between Password policy with leading practice.</p> <ul style="list-style-type: none"> As per the Bank Password Policy, 6 attempts for unsuccessful loggings were allowed. However, in general practice it is allowed only 3 to 5 attempts. More attempts may lead to increase frauds. 	<p>Currently the parameter is set to 5 and this is in line with the leading industry practice. Policy will be revised at the next review in order to comply with the leading practice.</p>	<p>Take action to prepare the passwords policy as to minimize the risk.</p>
<ul style="list-style-type: none"> Even though, idle session logout time should be 15 minutes as per leading practice, SMIB password policy is mentioned it as 30 minutes. 	<p>As you observed correct practice of 15 minutes of idle time has been already implemented. Policy will be revised at the next review in order to comply with the leading practice.</p>	<p>Take action to prepare the passwords policy as to minimize the risk.</p>
<p>b) In following instances, the Bank has not complied with the existing password policy of the Bank.</p>	<p>This is rectified and the current minimum password length is 8.</p>	<p>It should be complied with the existing passwords policy.</p>
<ul style="list-style-type: none"> Even though, password policy mentioned that minimum password length should be 8, according to application-level password settings of the Bank, the minimum password length was 4. 	<p>Usually, the user is created with the status “Account Password expired” and the user has to assign his / her own password.</p>	
<ul style="list-style-type: none"> As per the policy, user should be able to change initial login password. However, the system is not allowed to change initial login password. Even though, there is a password complexity as per the password policy, at the application-level, password complexity is not being applied. 	<p>Alpha numeric enforcement is being implemented and will be completed by 31/08/2022.</p>	

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| c) | There is no segregation of duties in the change management process. Change request and change approval are done by the same person as per change documents. (Manage change walkthrough) | Change management process includes segregation of duties. Action has been already been taken and correct process has been implemented. | There should be segregation of duties in change management process. |
| d) | Following reviews had not been conducted by the Bank during the year 2021.
<ul style="list-style-type: none"> • General User Account Review • User Access Review | User Access Review mechanism will be implemented by 30/09/2022 | Reviews should be conducted on time. |
| e) | Following weaknesses were observed in the process of other ITGC walkthrough.
<ul style="list-style-type: none"> • Recovery time objective and Recovery Process objective has not defined in the business continuity plan. • The Bank has not updated business continuity plan since 2019. • Bank has not performed DR drill for the year 2021. | This will be updated with the next policy review.

Updated BCP plan has been prepared and pending for approval.

Due to Covid restrictions the bank could not perform DR drill in 2021. However, DR drill was completed in March 2022. | ITGC walkthrough should be strengthen. |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.405,197,439 and the corresponding profit in the preceding year amounted to Rs.572,071,220. Therefore, a deterioration amounting to Rs.166,873,781 of the financial result was observed. The main reason for the deterioration is decrease of interest income by Rs.828,540,272.

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.

Description	Variance Amount	Variance	Reason for the Variance
	Increase/ (Decrease) (Rs'000)	(%)	
Interest Income	(828,540,272)	-14	Reduction of interest rates of existing and newly granted loans and advances.
Interest Expenses	(1,009,013,483)	-25	Reduction of interest rates on savings and fixed deposits.
Fee and Commission Income	(3,849,310)	-3	Reduction of new lending during the year.
Net Other Operating Income	(5,123,478)	-15	Reduction of dividend income from financial assets measured a fair value through Profit or Loss.
Impairment Charges	91,799,981	34	Increased in Non-performing loans advances during the year.
Personnel Expenses	211,223,060	24	Salary conversion of 22 percent, effective in the year of 2021.
Depreciation and Amortization Expenses	47,458,767	90	Depreciation charged for ROU assets of Head office building had been removed from ROU due to entering in to one-year lease agreement.
Income tax expenses	(64,028,633)	-30	Reduction of taxable income compared with the previous year.

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 (2021)	Bank			
		2021	2020	2019	2018
Profitability Ratio					
Return on Average Equity (ROE) (Percentage)	21.5	4.11	6.09	7.73	4.82

Return on Average Assets (ROA) (Percentage)	1.7	0.76	1.15	1.11	1.13
Net Interest Margin (Percentage)	4.1	4.34	4.24	4.52	4.72
Capital Adequacy					
Basel III – Tier I (Minimum 8%)	12	23.95	21.58	21.04	21.69
Basel III – Total capital (Minimum 12%)	14.6	25.23	22.67	21.77	22.23
Asset Quality					
Gross Non- Performing Advance (Including EPF) Loans	6.5	19.84	22.94	21.21	22
	6.5	9.19	10.71	7.73	7.0
Gross Non- Performing Advance (Excluding EPF Loans)					
Liquidity Ratios					
Liquidity Coverage Ratio (Percentage) (90%)	52.8	115	116	121.05	83.91

Following observations are made in this regard.

- i) Return on Equity (ROE) had been decreased by 1.98 percent as at 31 December 2021 when compared with the preceding year mainly due to decreased in profitability in 2021.
- ii) Gross non performing ratio of the Bank including EPF loans is very much higher than the sector ratio of 6.5 percent. This is due to high NPL ratio in EPF loan category. However, EPF loans are cash back loans and can be recovered through Central Bank. Gross non-performing loan ratio without EPF loans is 9.19 percent in 2021 which is higher than the sector ratio by 5.3 percent.

3. Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
a) The credit division of the Bank during the period from 01 September 2016 to 31 March 2017 had granted loans amounting to Rs.66.34 million to fourty seven (47) applicants who were presenting themselves as the employees of two fake private organizations. It was revealed that the applicants presenting themselves as	In this respect, the Bank has taken the following actions; Disciplinary actions have already been taken to all employees those who are responsible on granting of such loans. Lodged complain at	Internal controls on loan granting should be strengthen to prevent this kind of frauds.

employees of the two fake organizations had submitted forged documents in applying for respective loans. Out of the above loan, Rs.61,506,228 was recorded as the balance payment outstanding as at 31 December 2021.

Criminal Investigation Division against all parties those who have involved in obtained loans through fake organizations.

Legal actions have been initiated against all customers to recover the dues.

- b) Even though, branches had been shifted to new buildings from old buildings, balance amount of rent paid in advance of Rs.1,207,743 and Rs.531,860 had not been recovered from the lessors of Gampaha and Horana branches respectively.

Legal actions have been enforced to recover balances due from previous building owners.

Actions should be taken to recover these kinds of advances at a reasonable time period.

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
a) Due to the damp in the BCP room of the building on Yakkala road where the Gampaha branch is located, the walls near the server were wet and the floor of the DR room was wet. Also, due to the wetness of the deed room, the safe deeds were also wet and decayed, as well as the archives.	It is inappropriate to run the branch in this building due to the construction defects of the building and the insufficient efforts made by the owner of the building to correct the defects from time to time.	Before taking assets, bank should pay attention to economic value.
b) The Branch has moved into a new building which is located in Yakkala Road without repairing the defects in the new building though they have the time to continue the earlier location of the Branch which is located in Kandy Road.	It is inappropriate to run the branch in this building due to the construction defects of the building and the insufficient efforts made by the owner of the building to correct the defects from time to time.	
c) As per the COPE direction dated 23 March 2022, Board of Directors should pay their attention to implement the Core Banking facility by making discussion with the Central Bank regarding deferment of implementation by the Central bank on 23 April 2021.	The Bank has selected a company to implement a new Core Banking System. Implementation process is currently in progress.	Core banking system implementation process should be done immediately to overcome the existing deficiencies in the current system.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
The lorry bearing number LL 0503 which was purchased in 2014 is in idle since 29 September 2018. Further, revenue license of this vehicle was expired on 17 November 2021.	Action is in progress to dispose the lorry.	Assets should be utilized efficiently.

3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>a) The IT consultant had been recruited on 7 September 2020 on contract basis for the one-year period for the implementation of Core Banking System. Following observations are made in this regard.</p> <ul style="list-style-type: none">• Even though the CBSL has informed by the letter dated 23 April 2021 to defer the implementation of the new core banking solution, bank has deployed IT consultant for other purposes by extending his contract period up to date.• Said IT consultant was appointed to oversee the IT functions and to cover up the duties of Assistant General Manger (IT) of the bank with effect from 13 August 2021 until the proper recruitment taken place. It is doubtful that why external person under contract basis was appointed to cover up duties of senior management level position.	<p>When the Bank was informed by the letter dated 23.04.2021, to defer the implementation of Core Banking Solution, the IT Consultant was in the mid of his contract period of one (01) year. Due to the facts that, most of the supervisory concerns then were associated to the lack of a CBS as well as the fact that no proper instructions were given with regard to the proposed merger, the Bank had proceeded with the said implementation and therefore had extended the contract period of IT Consultant further.</p> <p>In order to facilitate the smooth- functioning of IT Operations until a proper recruitment to the vacant position of AGM (IT) and by considering the scope of knowledge and experience, the Bank has decided to appoint IT Consultant to oversee the IT Division temporarily.</p>	<p>Recruitment should be made according to the approved Scheme of recruitments (SOR).</p>

- b) According to the cadre position of the Bank as at 31 December 2021, approved cadre and actual cadre was 467 and 367 respectively resulting 102 vacant positions.

Employee Category	Approved Carder	Actual Carder	Vacancies/ (Excess)
Cooperate Management Positions	16	12	4
Senior Management Positions	11	6	5
Executive Positions	134	111	23
Non-Executive Positions	306	238	68
Total	467	367	102

Cooperate Management Positions

At the recent interview held on 13.12.2022, the Bank has selected two (02) candidates for the positions of AGM (IT) and Chief Internal Auditor, and currently awaiting the approval of the Board. Hence as at 21.12.2022, only two (02) positions namely, AGM (Valuation) and AGM (Credit – Disbursement and Monitoring).

Executive Positions

As at 21.12.2022, only twenty-one (21) vacancies exist in Executive positions (i.e after the retirements, resignations and promotions effected during 01.01.2022 – 21.12.2022)

Non-executive Positions

After the recent recruitment of twenty-eight (28) Trainee Banking Assistants, the vacancies in Non-executive positions have decreased to forty-six (46) as at 21.12.2022 (i.e after the retirements, resignations and promotions effected during 01.01.2022 – 21.12.2022)

Vacancies should be filled within the reasonable time period.

- c) The following observations are made relating to the Key Managerial positions of the Bank.

- DGM (Finance & Planning) position was

Since the recruited DGMs (F & P) had given resignations due to personal

This may have an implication to smooth

vacant up to the financial year 2021. Although this vacancy has been filled in 2021 and 2022, those officers had given their resignation within one year from their appointments.

reasons as well due to migration purposes, the Bank was not in a position to retain them. Accordingly, the Bank had taken measures to fill the vacancy by recruiting Mr. N.D.P. Somarathna with effect from 01.11.2022 for the respective position and as at present the position of DGM (F & P) is not vacant.

operation of the Bank. Key management position should be filled immediately.

- Chief Internal Auditor had been vacant until April 2022. Although an officer had been recruited for the Chief Internal Auditor position in December 2020, said officer had given her resignation in 29 April 2022.

The former Chief Internal Auditor; Mrs. N.A.R.N. De Silva tendered her resignation after the Board decided to extend her period of probation due to her failure to meet the expectations of the Management. During this time, the Internal Auditor of the Bank was on no-pay leave for foreign education. Hence, no potential person was available to act as CIA.

The Bank has advertised the particular vacancy multiple times (i.e 10.04.2022, 12.06.2022, 10.07.2022 and 30.10.2022). After the recent advertisement and at the interview held on 13.12.2022, the Bank has selected a potential candidate for the respective position and the particular selection is currently awaiting the approval of the Board.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue

The bank had withdrawn the financial statements submitted to the Auditor General on 28 February 2022 to rectify the self-identified errors by a letter dated 05 May 2022. The bank has not submitted a new set of financial statement signed by the Board of Directors to the Auditor General until 13 October 2022.

Management Comment

The Bank was not in a position to submit the amended Financial Statements due to amendments made to Financial Statements with respect to Audit Queries issued by the Government Audit during the period from July 2022 to September 2022.

Recommendation

Bank should submit financial statements after withdrawal of it. Auditor has no valid financial statements to conduct the audit during the period from 5 May to 13 October.

4.2 Annual Action Plan

Audit Issue

Even though the following actions had been targeted to implement during the financial year 2021 under the Action Plan, the Bank was unable to achieve those targets as expected during the year 2021.

- To amend the SMIB Act to enable diversify the traditional business line.
- To establish special mobile service unit to deliver services at the Customer convenient point.
- To establish six new branches by the end of 2021.
- To implement fixed assets management system.
- To implement a core banking solution.
- To implement an ATM Server and ATM Unit for Branches.
- To purchase new building site for head office with the Colombo city limit in order to enhance the service standard and to

Management Comment

A report on proposed amendments has already been submitted to the Ministry of Finance on 04.03.2022.

These strategies will be implemented after fully roll out of the Core Banking System which is in progress.

Fresh request has been made to the Ministry of Finance to reconsider the building already recommended by the cabinet approval of Technical Evaluated Committee.

Recommendation

Strategies in the action plan should be implemented at the targeted period. Non-achievable strategies should not be included in the Action plan.

improve the business.

These strategies will be implemented after fully roll out of the Core Banking System which is in progress.

- To develop MIS in 2020 to generate reports requires for timely decision making.
- To provide Internet Banking facility to customers by 2022.
- To implement IT system required for Risk Management and Compliance functions by 2021.
- To improve and update web-based Knowledge sharing system in 2021.
- To enter into MOU with government, semi government and private sector entities to promote mortgage and EPF back loans.
- To introduce Agent Banking System to strengthen Door to Door collection service.