

Sri Lanka Savings Bank Limited - 2022

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Sri Lanka Savings Bank Limited (“Bank”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of Comprehensive income, Statement of 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. 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 2022, 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 scepticism throughout the audit. I also:

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
Although it had been decided to liquidate or merge the Bank with National Savings Bank according to the Letter No: 02/19/319/0001/004 dated 05 January 2021 of Director of Bank Supervision of Central Bank of Sri Lanka and directed to the temporarily suspension of its operations, the disbursement of loans and the receipts of deposits since that date, that decision has not been activated up to the reporting date.	Sri Lanka Savings bank has done all what is required to materialize the proposed merger with NSB. We have been informed by the NSB that NSB Act has to be amended and NSB has made this request to treasury. The Treasury has prepared the Cabinet Paper and presently this paper is pending approval from the Cabinet of Ministers.	The process of merger should be speed up so as to not to idle the existing resources.

1.5.2 Documentary Evidences not made available for Audit

Audit Issue	Management Comment	Recommendation						
<p>i. Following assets vested from Pramuka Savings and Development Bank (PSDB) has been fully impaired and no evidences were found to verify those balances.</p> <table border="1"> <thead> <tr> <th>Item</th> <th>Amount (Rs.)</th> </tr> </thead> <tbody> <tr> <td>Discount paid in advance</td> <td>13,356,809</td> </tr> <tr> <td>Deposit fund on behalf of PSDB L/T case</td> <td>7,098,200</td> </tr> </tbody> </table>	Item	Amount (Rs.)	Discount paid in advance	13,356,809	Deposit fund on behalf of PSDB L/T case	7,098,200	<p>1. Discount paid in advance has been transferred at the vesting of PSDB. Hence, no evidence available for verification.</p> <p>2. There are two appeal cases pending before the Supreme Court regarding an issue on Gratuity payments of PSDB employees of which total case value is Rs. 7,098,200. The case are</p> <ul style="list-style-type: none"> •SC/HC/LA/01/2017 •SC/HC/LA/02/2017 	<p>Evidence and break-ups should be maintained for each and every balance in the financial statements.</p>
Item	Amount (Rs.)							
Discount paid in advance	13,356,809							
Deposit fund on behalf of PSDB L/T case	7,098,200							
<p>ii. Although Rs.6,200,000 was accrued as the rental expense for Matara branch during the period from April 2020 to December 2022, the Bank has not entered into a rent agreement with the owner of the building (NSB) until the audited date on 31 March 2023.</p>	<p>Negotiations are going on with NSB, Parent Company regarding the monthly rent to be paid. Once negotiations are over an agreement will be signed and rent will be paid.</p>	<p>It is recommended to enter into a rent agreement to secure Bank's interest against legal matters.</p>						

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation								
<p>The following balances were outstanding since several years without being recovered.</p> <table border="1"> <thead> <tr> <th>Item</th> <th>Amount (Rs.)</th> </tr> </thead> <tbody> <tr> <td>Stamp duty receivable</td> <td>1,999,000</td> </tr> <tr> <td>Post-date cheque discounted A/C</td> <td>349,200</td> </tr> <tr> <td>Receivable- Senior Citizen FD Subsidy</td> <td>3,045,845</td> </tr> </tbody> </table>	Item	Amount (Rs.)	Stamp duty receivable	1,999,000	Post-date cheque discounted A/C	349,200	Receivable- Senior Citizen FD Subsidy	3,045,845	<p>Stamp duty receivable - amount is a payment made when acquiring of a mortgaged property to the Bank on defaulted loan customer. This amount could be recovered only when the property is disposed.</p> <p>Post-date cheque discounted A/C : legal action taken to recover the balance.</p> <p>Receivable Senior Citizen FD Subsidy: This is the amount</p>	<p>Prompt actions should be taken to recover the long outstanding.</p>
Item	Amount (Rs.)									
Stamp duty receivable	1,999,000									
Post-date cheque discounted A/C	349,200									
Receivable- Senior Citizen FD Subsidy	3,045,845									

Bank should receive from Treasury in respect of the interest paid to senior citizens for the period from 1st April 2021 to 30th June 2022.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
An amount of Rs.32,249,689 of PSDB borrowing which was disclosed under “due to other borrowers” were prevailed more than 02 years.	PSDB Borrowing- The unclaimed balances were remained in the PSDB Borrowing account.	Outstanding balances should be reconciled and cleared within reasonable time period.

1.7 Cash Management

Audit Issue	Management Comment	Recommendation
As per bank reconciliations prepared as at 31 December 2022, balance of Rs. 855,074 had prevailed for the period ranging from 06 months to 05 years without being cleared.	Unposted Bank credits - Rs.841,674: This includes unidentified deposits of Peoples Bank current account. It will be rectified in Year 2023. Error Posting - Rs.13,400 : To be rectified in 2023.	Internal control procedure should be strengthened to avoid operational weaknesses of the Bank.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.445,149,667 and the corresponding profit in the preceding year amounted to Rs.255,144,487. Therefore, an improvement amounting to Rs.190,005,180 of the financial result was observed. The reasons for the improvement are increase in interest income of financial instruments and decrease in interest expense due to decrease in deposits.

2.2 Ratio Analysis

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

Description	Sector		SLSBL	
	2022	2021	2022	2021
Return on Equity (%)	2.3	21.5	6.40	4
Return on Asset (%)	0.1	1.7	5.19	4
Net Interest Margin	2.4	4.1	14.98	7
Liquid Asset Ratio	30.9	6.5	954	742
Risk Weighted Capital Adequacy Ratio – Tier 1 (Minimum Requirement - 5%)	14.20	52.8	165	101

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>There were several instances where the Bank had act irresponsibly, though its main priority was to implement the activities related to the merger as directed by Director of Bank Supervision of CBSL. Some instances are given below.</p> <p>(i) The Bank had not submitted the Capital Augmentation Plan including plans to consolidate or merger with suitable financial institutions as per Direction 7.2 of the Banking Act Directions No. 04 of 2022 dated 23 May 2022.</p> <p>(ii) The requirement to implement the merger process by the Bank was re-emphasized due to operational difficulties of SLSBL as lack of competent staff according to the Letter No. 02/19/319/0001/005 dated</p>	<p>The parent Company has given an undertaking on 10/12/2020 that any deficit in the minimum Capital Requirement will be funded by the Parent. The Central Bank has requested assurance on the same from Parent and we have requested the assurance by our latter dated 14/02/2023. Copies of both letters are attached herewith)</p>	<p>Bank should speed up the merger process by negotiating with the parent.</p>

03 February 2023 of Director of Bank Supervision of CBSL.

(iii) As stated in the Letter No. 02/19/319/0001/005 dated 27 May 2022 of Director of Bank Supervision of CBSL, both NSB and SLSBL had been granted sufficient period of time to implement the Monetary Board approved resolution framework for SLSBL. However, both banks had failed to ensure timely implementation of corrective measures informed from time to time by CBSL pertaining to the resolution framework.

(iv) The Bank has submitted a Strategic Business Plan for the period 2022-2026 with unrealistic projections and non-consideration of key risk assessment factors as specified in the Letter No. 02/19/319/0001/005 dated 13 January 2022 of Director of Bank Supervision of CBSL.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
i. The Bank has not updated the existing fixed asset register based on the physical verification as it had not conducted the physical verification after year 2015. As per the internal audit reports, there were fixed assets which were not confirmed and not physically available amounting to Rs.16,347,641 and Rs.649,320 respectively.	This has already been rectified. Physical verification of the Fixed Assets had been completed and Board approval for the amended Fixed Assets register was obtained on 29.03.2023.	Physical verification of Fixed Assets should be done within a reasonable time period.
ii. Although the progress of the loan recovery of the Bank after the	SLS Diriya loan scheme is consisted with loans granted to	Loan recovery procedure of the

suspension of the operations was at a satisfactory level for many loans types, the significant increase in the non-performing loan in SLS Diriya loan scheme was observed as at 31 March 2023. Compared to the NPL Ratio prevailed at the date of suspension of the operations it has increased by 411 per cent.

MSME sector, which is the most affected sector from the Covid-19 pandemic and the recent economic crisis of the country.

As for many SME borrowers, some of considerably large valued loans were transferred to NPL during the period of year 2022. Total No.of NPL loans as at 31.03.2023 were 15 loans, out of that two facilities amounting to Rs.9.2 Mn has been settled as at 30.06.2023.

Bank has taken every possible effort to regularize these facilities and some of facilities are under litigation right now, few facilities are under reschedule process.

Accordingly, NPL balance has been reduced to Rs.121 Mn by Rs.10Mn as at 30.06.2023. It is expected in reduction in NPL balance further by end of the year due to the strict recovery actions taken by the bank.

bank should be speeded up.

3.3 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>i. Two employees had been promoted to the post of Stenographer-III on 01 September 2020 considering the unavailability of career path for the Secretary Grade I and this post was not in the approved cadre of the Bank.</p>	<p>This decision was taken by the Executive Human Resources Committee Meeting Chaired by the GM/CEO of NSB held on 18th December 2019. Considering unavailability of career path for the Secretary grade I, The committee decided to place them at the Grade of Stenographer -III of NSB Structure at their next Grading/promotion.</p>	<p>Bank should adhere to approved cadre and approved Scheme of Recruitment.</p>

- ii. The cadre of the Bank as at 31 March 2023 is 102 and they were paid Rs.553,344,959 as staff emoluments and bonus for the period from 05 January 2021 to 31 March 2023. Though a considerable cost has been incurred as staff emoluments, the Bank was unable to bring the optimum benefit for the Bank for the cost incurred due to temporary suspension of its major operations. It seems that this situation will continue for the future period as well due to implementation delays of the merger proposal of the Bank.

Although the deposit taking and lending activities of the bank has been curtailed since 05th January 2021, Bank has to adhere to all other regulatory and statutory requirements whilst attending to recoveries, legal proceedings, financial reporting, risk management and compliance, treasury management and branch operations.

Human Resource of bank should be utilized in an effective manner.

The Bank has sent 05 staff members to NSB and NSB Fund management Ltd. on secondment Basis in 2022. Further, Bank also has informed the Parent, NSB that it could release more staff on secondment basis.

Furthermore, the CBSL has given deadline recently to complete the merger process by 30.09.2023.

Employees' emoluments are being paid as per the agreed and approved wage policies.