

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Merchant Bank of Sri Lanka & Finance PLC (the “Company”) and the consolidated financial statements of the company and its subsidiary (the “Group”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of profit or loss, the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to parliament appear in this report. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group 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 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 intend 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 Company’s and the Group’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

1.4 Audit Scope

My objectives are 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 Accounts Receivable and Payable

1.5.1 Receivables

Audit Issue	Management Comment	Recommendation
(i) Long outstanding receivable balances aggregating to Rs. 56,554,386 were outstanding from 1 year to more than five years' period.	<p>Fingara Town & Country Club</p> <p>Legal actions were taken and in trial stage. Considering outstanding period, full provision has been made in the financials.</p>	<p>It is recommended to take necessary steps to clear long outstanding receivable balances.</p>
	<p>Real State Adv Rec- Ampitiya</p> <p>Rs.238,200 is already recovered in 2023. Arrangements are made to collect the balance Rs. 402,513 by end of 2023.</p>	
	<p>Employee Receivable</p> <p>*Kandana Fraud case – Rs.37,160,419.48</p> <p>A legal case has been filed against the Employee in Magistrate Court - Negambo. The case is in trial stage.</p> <p>Considering the outstanding period, the Company has made a full provision of Rs. 37.16 mn in the financials.</p>	
	<p>*Receivable from Mr. Bhagya (Chilaw Branch) Rs. 235,580.96</p> <p>Necessary actions are being taken to recover the outstanding balance. In addition, full provision will be made in the year 2023 to recover the balance.</p>	
	<p>*Anuradhapura Pawning Fraud – Rs.4,995,491.87</p> <p>A court case is in progress against the employee in District Court Anuradhapura who committed the fraud to recover the outstanding.</p>	

In the meantime, a provision of Rs. 2,879,488 has been made after considering insurance value received and market value of gold items in possession by the Company.

* Galle Branch – Rs.296,000/- receivable from Mr. Nilanga – Former Branch Manager

Discussion are being held to recover the amount. In addition, legal advice will be taken considering the amount and duration.

*Loan Settlement of ECO Cabana – Rs.2,673,905.65

Action was filed in SCIB Galle. Case is in final stage.

*Rs.839,950.94

The difference is fully provided and to be cleared after the recommendation of the Internal Audit Division.

*Wennappuwa Branch – Rs.1,347,300/-

The case is withdrawn and the vehicle was sold. The balance is to be written off as per the Company Policy.

*Matara Branch – (Rs.15,000)

Already cleared in 2023.

1.5.2 Payables

Audit Issue	Management Comment	Recommendation
(i) Long outstanding balances aggregating to Rs.154,783,481 were observed in relation to Unidentified Direct Deposit, Unpresented Payment, Customer Collection Account and Salary Control Account which are outstanding from 1 year to more than five years period. The age analysis of the long outstanding balances is given in the following table.	<p>Unidentified Direct Deposits</p> <p>Comment noted. These are direct deposits made by customers without any identification in reference field. Necessary actions are being taken to clear the long outstanding balances as per the Board approved Policy of</p>	It is recommended to take necessary steps to clear long outstanding payable balances and follow the directions and policies of the Company.

Description	Outstanding Period (Years)					Total (Rs.' Mn)
	0-1 (Rs.' Mn)	1-3 (Rs.' Mn)	3-5 (Rs.' Mn)	More than 05 Years (Rs.' Mn)		
Unidentified Direct Deposits	2.83	4.53	5.15	6.38	18.89	
Unpresented Payments	0.54	1.37	0.49	1.67	4.07	
Customer Collection Account	5.48	1.30	0.53	100.03	107.34	
Salary Control Account	23.62	0.63	0.19	0.04	24.48	
Total	32.48	7.83	6.36	108.12	154.78	

Clearance of Long Outstanding Balances.

In addition, the Policy is being amended to clear any long outstanding balance with shorter period with justification.

Unpresented Payments_Finance Division regularly follows up with respective divisions for clearance. Any balance remaining after 6 months are transferred to the GL given.

Long outstanding balances are cleared as per the Board approved Policy of Clearance of Long Outstanding Balances.

Customer Collection Account

Out of the balance, Rs.100mn relates to advance funds received from Navara Capital for an investment in MSB. Due to breach of terms, the agreed investment did not materialize. Thereafter, Navara Capital has filled a legal action for then refund of the advance paid. The legal case is in final stage. The balance has to be maintained till the completion of the legal case. As the amount is not a customer collection, the balance will be transferred to a Sundry Creditors account.

Other balances relate to customer collection for settlements and being cleared with the settlement of contracts.

Any balances outstanding for a long period will be cleared as per the Company Policy.

Salary Control Account

The comment noted. Already 2017 to 2020 balances are cleared. Other long outstanding balances are being cleared.

- (ii) Even though both Madempella Real Estate and Marrawila Real Estate were fully sold out as at 31 December 2022, total accrued expenses amount of Rs.27,453,987 (GL No. 20108) includes provision made for Madempella Real Estate and Marawila Real Estate amounting to Rs. 1,099,770 and Rs. 1,789,893 respectively as at 31 December 2022. (Both provision had been made in 2021)

Madampella

The balance of Rs.1,099,770/- is already cleared from the financials.

It is recommended to clear these account balances, hence the land are fully sold out.

Marawila

The comment noted. The balances of Rs. 1,789,893/- will be reversed by 10.11.2023.

1.5.3 Advances

Audit Issue

- (i) The capital and interest outstanding balance of top 10 Non- Performing customers were Rs. 1,241.46 million as at 31 December 2022.

No.	Name of the Customer	Capital Outstanding (Rs.Mn)	Interest Outstanding (Rs.Mn)	Total (Rs.Mn)
1	A P A Jewellery (pvt) Limited	193.98	68.12	262.10
2	MAG Storage Battery (pvt) Ltd	139.76	183.62	323.38
3	Walkers Sons & Company Engineers (pvt) Ltd	79.75	28.74	108.49
4	Southern Group Civil Constructions (pvt) Ltd	79.24	7.65	86.89
5	Daya Group (pvt) Ltd	78.02	47.08	125.10
6	ORU Asphalt (pvt) Ltd	56.82	69.55	126.37

Management Comment

1. A P A Jewellery (pvt) Limited

Rs.60 Mn was already collected in 2023. Negotiations are ongoing for a full settlement of the facility.

A new investor is in the process of evaluating the business. Settlement negotiations are in progress with the investor

2. MAG Storage Battery (pvt) Ltd

Legal action is in the trial stage.

Settlement negotiations are ongoing and settlement proposals were submitted for approval of the BOD and a final agreement has not been reached.

3. Walkers Sons & Company Engineers (pvt) Ltd

Case filed against our customer for winding up. MBSL filed proxy and intervened into the case to support the winding up application. Winding up order dated 24/02/2022

Recommendation

Satisfactory actions need to be taken by the Company to recover the total due amount from the customers.

7	Plantation Development & Management (pvt) Ltd	52.12	23.75	75.87	delivered dismissing the application.
8	Dr. U.G.A.Fernando	38.64	6.96	45.60	Settlement is expected by disposing off the mortgaged property.
9	Sigiriya Viceroy Hotels (pvt) Ltd	33.84	23.82	57.66	
10	Anura Man Power Suppliers (pvt) Ltd	30.0	0.00	30.0	
Total		782.17	459.29	1,241.46	

4. Southern Group Civil Constructions (pvt) Ltd

The facility was settled in full in 2023

5. Daya Group (pvt) Ltd

Legal action initiated. Summons cannot be served due to unavailability in the present address.

In the meantime negotiations are ongoing for a settlement.

6. ORU Mix Asphalt (pvt) Ltd

Writ filed and court valuation also obtained.

Rs. 40 million paid in 2023. Customer agreed to settle the facility by repaying monthly instalment basis.

7. Plantation Development & Management (pvt) Ltd

Currently legal actions withheld as the customer is not traceable. Other options are being followed to trace the borrower.

8. Dr. U.G.A. Fernando

Legal action initiated and action is on hearing stage. Borrower committed for a settlement plan through lawyers and MBSL is working on it.

9. Sigiriya Viceroy Hotels (pvt) Ltd

Writ obtained. Writ Execution is withheld due to appeal filed by the current residence at the property.

Customer agreed for further negotiations on settlement. However a settlement has not been reached till date.

10. Anura Man Power Suppliers (pvt) Ltd

The Collateral was acquired by the Company. Property is available for sale and the outstanding balance will be settled upon the disposal of the property.

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

No.	Reference to Laws, Rules Regulations etc.	Non-Compliance	Management Comments	Recommendation
(i)	Section 5 of the Finance Companies Direction No.4 of 2006 (Single Borrower Limit)	The Company has violated the cited Direction by granting unsecured loans and advances to MBSL Insurance Company Ltd amounting to Rs.55 million , by exceeding 1 per cent of the Core Capital (Rs.36.71 Mn) of the Company as at 31 December 2022.	The comment noted. The captioned facility has been settled in 2023.	It is required to comply with the cited Direction.
(ii)	Section 1 of the Finance Business Act Direction No.3 of 2018 (Capital Adequacy Requirement)	The Company has failed to maintain the Capital Adequacy Ratios (CARs) above the regulatory minimum levels specified in the cited Direction. The Total CAR of the Company was 12.01 per cent as at 31 December 2022, which is below the regulatory minimum requirement of 12.5 per cent.	The comment noted. At present, the company the CAR requirement is complied.	It is required to comply with the cited Direction.
(iii)	Rule No; 7.14.2 of the Listing Rules of the Colombo Stock Exchange	Non- compliance with the Minimum Public Holding Requirement of 20 per cent with effect from 1 November 2021, pursuant to the listing of 358,655,096 numbers of shares from the right issue on 1 October 2021. The public float of the company has dropped to 15.50 per cent due to the new right issue of the Company.	The comment noted. The concern has been rectified with the transferring of shares to Diri Savi Board with effect from 26.04.2023	It is required to comply with the cited Direction.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.495.6 million and the corresponding profit in the preceding year amounted to Rs.529 million. Therefore, a deterioration amounting to Rs.1,024.6 million of the financial result was observed. The main reasons for the deterioration are the decrease of net interest income by Rs.1,094.9 million, decrease of other operating income by Rs. 142 million and increase in impairment chargers for loans and other assets by Rs.91 million in the year under review when compared with the preceding 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

Description	2022 (Rs.'000)	2021 (Rs.'000)	Change (%)	Reason for the Variance
Interest and Similar Income	6,451,083	5,525,955	16.74	Interest income has increased mainly due to increase of loans and receivables and financial investments at fair value through other comprehensive income.
Interest and Similar Expenses	4,695,684	2,675,588	75.50	Interest expense has increased due to increase of deposit base and the borrowings of the company.
Fee and Commission Income	129,157	189,929	58.78	Fee and Commission Income has decreased mainly due to decrease of trade and other related activities.
Net Trading Income	2,255	44,281	94.90	Net Trading Income had decreased due to decrease in gain/(loss) on disposal of financial assets at Fair Value through Profit or Loss.
Other Operating Income	92,229	234,335	60.64	Decrease in other operating income resulted due to decrease in gains on disposal of property & equipment, dividend income, profit & losses from real estates, and other income.
Impairment Chargers for Loans and Other Losses	16,504	(74,450)	122.2	Impairment chargers for Loan and other losses increased mainly due to increase in impairment on individual significant loans and write off.

2.3 Ratio Analysis

According to the information made available, certain important ratios of the Company for the year under review and the preceding year are given below with comparison to the Sector Ratios published by the Central Bank of Sri Lanka.

Description	Sector Ratio *	Company	
		2022	2021
Performance Ratios			
Return on Equity (ROE)	7.37	(12.60)	18.77
Return on Assets (ROA)	2.56	(1.51)	1.59
Interest Margin	6.69	5.85	9.42
Assets Quality Ratio			
Gross Nonperforming Advances (NPL)	17.41	17.77	15.92
Capital Adequacy Ratios			
Tier 1 Capital (Minimum 8.50%)	20.56	11.33	10.75
Total Capital (Minimum 12.50%)	21.99	12.01	11.33
Statutory Ratio			
Liquid Assets Ratio	10.68	13.41	12.92

* Sector ratios had taken from CBSL web site under Finance Sector - Licensed Finance companies

3. Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
(i) The Board of Directors of the Company has approved to write back the long outstanding General Ledger (GL) credit balances aggregating to Rs.7,815,340 and to write-off the long outstanding General Ledger (GL) debit balances (except loans and advances) aggregating to Rs.2,167,507 during the year 2022.	The Company had wrote back Rs.7,815,339.89 and wrote off Rs.2,167,506.99 long outstanding GL balances by following the Company Policy. All necessary actions were taken to clear before following the Policy. The Company considers write back and write off long outstanding credit and debit balances in line with Board approved Policy of clearance of Long Outstanding balances. Accordingly, long outstanding balances over 5 years were written back and written off.	It is recommended to minimize the possible losses to the company due to write offs.

The net impact to the P&L was an income of Rs. 5,647,832.90.

- (ii) The Company has written off 8,493 numbers of non-performing loans and advances aggregating to Rs.982,556,008 during the year under review due to inability of recovering.
- In the intention of improving asset quality of the portfolio, write-off procedure was applied as per the Write Off Policy. Prior to write-off all possible action to recover these non-performing loans were taken and this was executed as the last option.
- However, special recovery team are assigned to recover the written-off facilities
- It is recommended to take every possible effort to recover the loans and advances before writing off.

3.2 Operational Inefficiencies

No.	Audit Issue	Management Comment	Recommendation
(i)	96 number of seized vehicles were sold during the year 2022 and the outstanding lease balance aggregating to Rs.61,565,170 should have been recovered from the sales proceeds of 43 number of vehicles. However only Rs. 44,113,139 was received from the sale and the balance of Rs.17,452,030 is still to be recovered from the customers even after the disposal of vehicles.. It was observed that upon inability of recovering the aforesaid amount from the customers, the Company may have to incur the loss. See <i>Annexure I</i> to this report.	The company disposed its repossessed vehicles within the parameters given in the vehicle yard operations procedure. Realizing assets where ever possible is an economic decision during the prevailing turbulent time and such a disposal decision is taken assuming that the shortfall is expected to be recovered from the customers through the recovery process.	It is recommended to take action to minimize the losses to the company by sale of seized vehicles.

- (ii) Significant delays were observed when disposing seized vehicles from the yard. Out of 156 parked vehicles in the yard, 90 vehicles were parked there since long period. This may cause for incurring of high maintenance cost over years and the losses may arise due to reduction of market values as well. Details are given below.

Parked Period in the Yard	Number of Vehicles
1 - 3 Years	13
3 – 5 Years	32
More than 5 Years	45
Total	90

54 vehicles out of 90 vehicles on the list are court bonded vehicles which can-not be disposed of until the bond is cancelled by the courts. 5 vehicles cannot be disposed of due to active RMV objections from the customers. Those vehicles will be disposed of subsequent to the cancellation of objections and 11 vehicles in the list were subsequently disposed and / or released. However, there are 20 vehicles which were not disposed of without incurring huge losses to the organization due to the prevailing condition of the vehicles and such vehicles are not meeting the criteria of disposal decision. Approval of the BOD is sort for auctioning of long held vehicles as an alternative solution.

It is recommended to take every effort to clear the bond by the court and dispose the seized vehicles by incurring minimum loss to the company.

- (iii) The company had repossessed and sold 96 vehicles during the year 2022. However, out of the above 96 vehicles, 67 vehicles were sold at a lower price than the forced sale value given in the valuation report. The aggregated loss from the aforesaid transactions to the Company was Rs.17,818,600.

The company disposed its repossessed vehicles within the parameters given in the vehicle yard operations procedure. Under these provisions, in a situation where the offers received less than the forced sales value of the vehicles the disposal committee arrives at a disposal decision

It is recommended to take decisions in a prudent manner which minimize possible losses to the company.

During the period under review, the prices of the vehicles deteriorated drastically especially subsequent the political instability and economic crisis where disposal could not be effected at the forced sale value of the vehicles. However, company was able to dispose almost all vehicles at transaction profits even though the vehicles disposed at 20% less than the forced sale value. As a policy, disposal committee decided to dispose vehicles above the 80% of the force sale price.

- (iv) The company has sold 07 blocks under the Marawila real estate project and 19 blocks under the Madampella real estate project during the year 2022. However, 03 blocks of each Marawila Project and Madampella Project were sold at a lower price than the market value and force sale value given in the

Marawila & Madampella

We have obtained the valuation report for Marawila and Madampella on 09th September and 02 October 2020 respectively. There was a very poor demand for blocks at Marawila and Madampella because of the Covid 19 pandemic situation prevailing in the country from March 2020 to November 2021. In addition with poor demand is for blocks at Madampella due to

It is recommended to take decisions in a prudent manner which minimize possible losses to the company.

valuation report. The aggregated impact was calculated as Rs. 1,768,500 (The difference between selling price and FSV value).

very odd shapes and narrow access road. Therefore, we had to dispose the blocks of 2 project for reasonable price. Even though, we sold these blocks at lower prices than the market value and force sale value given in the valuation report, we have sold these blocks higher than the Board approved average price per perch.

(v) The company had granted short term loans, term loans and debt moratorium loan facilities at several times to a particular customer since 2018 to 2021. In 2021 as per the irregular payment pattern of the said customer and the moratorium relief program of CBSL, the company had restructured the facilities by converting all the above loans into one loan amounting to Rs.38,644,244. Following observations are made regarding the restructured facility.

The captioned facility was restructured under the CBSL recommended relief packages. The Pandemic situation & the adverse economic conditions badly affected the client. Since the facility was rescheduled under moratorium relief package, we had to forego our normal credit evaluation. The restructuring was done with the available documents as the other option would be to initiate legal action to recover the monies and due to the country's situation taking legal action was temporarily halted as instructed by CBSL Circular no.05 of 2020 Section no. 4 (iii)

It is recommended that satisfactory actions need to be taken by the Company to recover the total due amount from the customer or from the guarantor.

- The company had not evaluated the repayment capacity of the borrower before entering into the restructured process as per Credit Procedure Manual.
- Unsatisfactory CRIB history of the borrower had not been considered. As per the Board paper No. CBU/2021/606/016, periodical reviews on the business performance had not been conducted and reported to the credit committee by the post credit monitoring unit.
- No reliable proof documents obtained to justify the monthly income of the guarantor.
- As the company was unable to approach the guarantor, further action had not been taken against the guarantor.

The captioned restructured facility was granted in December 2021 with an initial grace period of 03 months to commence repayment, however from the first rental client did not service the due rentals as promised. We had taken every possible efforts to communicate the client since February 2022 , he did not response to them. Therefore we were of the view that there were no necessity of carrying out a further review than initiating recovery action to recover the monies lent, accordingly the facility was terminated on the 05th July 2022 & file was transferred to Legal department to initiate legal action.

As the no positive response to the Letter of Demand sent by the Legal department, an Action bearing No HC/Civil /7/2023 has been filed in the Commercial High Court of Colombo on or around 16th January 2023 against the said client and the case in ongoing.

3.3 Idle or underutilized Property, Plant and Equipment

No	Audit Issue	Management Comment	Recommendation
(i)	Properties mortgaged against loans had been acquired by the company due to the facility became Non Performing (NPA) and classified these under the investment properties in the financial statements. Five mortgaged properties acquired by the company and shown under Investment Properties had been restricted to possess due to the prevailing legal situation with previous landlords. The Company had not consider the legal title of the properties at the time of mortgaging.	<p>At the time of recognizing these assets as Investment Properties, the Company had clear title for the properties and had no legal cases. The legal cases initiated after the obtaining the legal title to those properties. Therefore, it's in line with the asset recognition criteria.</p> <p>In addition, considering the its current status, a provision of Rs. 6.05mn, has been made in the financials.</p>	It is recommended to utilize the investment properties in an effective manner after getting the legal clearance and ensure the legal background of the properties mortgaged when granting the loans.
(ii)	Although any income on investment properties has not generated since the acquired date, legal charges and depreciation amounting to Rs.40.8 million and Rs.9.5 million had been incurred by the Company until the date of audit on 30 April 2023. These land and buildings are still being idle without any use.	MBSL has been unable to develop, generate income or dispose these investment properties during the last financial year due to the pending legal cases. All these properties are possessed by MBSL, however, MBSL is unable to take physical possession of the properties, as there are prevailing legal cases with the previous landlords. Hence, legal charges and depreciation for the buildings had been made for the same. The Legal charges and other expenses has been incurred to safeguard and maintain the company asset.	It is recommended to minimize the legal charges by satisfying the legal clearance of the properties mortgaged at the inception of granting loans and actions to be taken to generate the income through these properties.

3.4 Human Resource Management

No.	Audit Issue	Management Comment	Recommendation																		
(i)	<p>The approved cadre of the company for the financial year 2022 was 1274 employees and the actual cadre as at that date was 896. It was observed that 504 numbers of positions are vacant as at 31 December 2022 in fourteen (14) job categories while having 126 numbers of excess employees in two (2) job categories. Therefore, it was observed that 378 number of employees which represent 29.6 per cent of the approved cadre were vacant as at 31 December 2022.</p> <p>Details are depicted in the following table.</p> <table border="1"> <thead> <tr> <th>Description</th> <th>Number of Employees</th> <th>Percentage %</th> </tr> </thead> <tbody> <tr> <td>Approved Cadre</td> <td>1274</td> <td>-</td> </tr> <tr> <td>Actual Cadre</td> <td>896</td> <td>-</td> </tr> <tr> <td>14 number of position / designation - Shortage (A)</td> <td>504</td> <td>39.5</td> </tr> <tr> <td>02 number of position / designation - Excess (B)</td> <td>(126)</td> <td>9.8</td> </tr> <tr> <td>Number of staff vacant (A-B)</td> <td>378</td> <td>29.6</td> </tr> </tbody> </table>	Description	Number of Employees	Percentage %	Approved Cadre	1274	-	Actual Cadre	896	-	14 number of position / designation - Shortage (A)	504	39.5	02 number of position / designation - Excess (B)	(126)	9.8	Number of staff vacant (A-B)	378	29.6	Existing structure of the departments of the Head Office are being reviewed and will be finalized by the end of this year. However, Range & Branch structures have been already finalized.	It is recommended to take necessary steps to recruit the employees for the vacant positions to ensure smooth functioning of Company's activities.
Description	Number of Employees	Percentage %																			
Approved Cadre	1274	-																			
Actual Cadre	896	-																			
14 number of position / designation - Shortage (A)	504	39.5																			
02 number of position / designation - Excess (B)	(126)	9.8																			
Number of staff vacant (A-B)	378	29.6																			
(ii)	<p>148 number of employees had left the company during the year 2022 which represents 15.8 per cent of existing average number of employees as at 31 December 2022. This indicate high staff turnover of the Company during the year under review.</p>	The comment noted. Action are being implemented to retain the staff. This is a common factor in the current downturn economy.	It is recommended to minimize the staff turnover to ensure the smooth functioning of the Company's operations.																		

- (iii) Nine (9) vacancies which is 45 per cent of the approved cadre assigned to the internal audit division were observed during the financial year 2022. Satisfactory actions had not been taken by the relevant authorities to fill the vacancies. Details are given below.

The matter has been addressed already.

It is recommended to take necessary steps to fill the vacancies on priority basis.

Designation	Approved Cadre	Actual Cadre as at 31/12/2022	Vacancies
Assistant General Manager	1	1	-
Chief Manager/Regional Manager	1	-	1
Senior Manager	2	2	-
Assistant Manager	1	-	1
Executive Officer	4	4	-
Junior Executive Officer	3	1	2
Staff Assistant	8	3	5
Total	20	11	9

Annexure I

No	Vehicle Number	Disposal Date	Total Disbursement (A)	Total Recovered (B)	Full outstanding to be recovered after disposal of the Vehicle (Rs.) (A-B)
1	WP FZ-0186	29/07/2022	2,997,680.00	1,442,737.40	1,554,942.60
2	SP ND-2687	14/03/2022	5,800,000.00	4,692,888.37	1,107,111.63
3	WP LY-1812	28/03/2022	3,325,000.00	2,509,135.75	815,864.25
4	NC RF-2869	28/03/2022	1,575,000.00	766,459.16	808,540.84
5	48-0145	21/02/2022	840,000.00	39,451.14	800,548.86
6	NW HW-6738	14/12/2022	1,280,000.00	499,863.13	780,136.87
7	NC RF-4213	19/12/2022	900,000.00	121,150.00	778,850.00
8	48-0985	24/02/2022	800,000.00	38,922.67	761,077.33
9	WP NF-5335	23/03/2022	7,000,000.00	6,265,304.86	734,695.14
10	NW HO-7160	27/07/2022	1,150,000.00	447,442.22	702,557.78
11	NW NA-9082	29/07/2022	1,700,000.00	1,050,609.60	649,390.40
12	NC RF-6010	23/03/2022	1,295,000.00	669,344.88	625,655.12
13	NW NA-1690	21/02/2022	1,540,000.00	918,106.40	621,893.60
14	NC RF-3856	10/08/2022	1,100,000.00	527,086.24	572,913.76
15	63-4268	28/07/2022	1,350,000.00	802,695.79	547,304.21
16	WP LO-1544	02/08/2022	4,600,000.00	4,122,096.81	477,903.19
17	62-9993	21/02/2022	1,850,000.00	1,384,591.78	465,408.22
18	NW ND-5330	31/01/2022	1,800,000.00	1,354,115.58	445,884.42
19	SP GD-7693	26/01/2022	1,263,000.00	843,855.74	419,144.26
20	CP NB-2357	24/02/2022	1,500,000.00	1,105,591.15	394,408.85
21	SP ND-3552	24/02/2022	5,600,000.00	5,208,395.44	391,604.56
22	48-9828	22/02/2022	625,000.00	286,563.41	338,436.59
23	48-0964	25/02/2022	725,000.00	426,700.53	298,299.47
24	SP GH-0844	24/01/2022	1,025,000.00	762,814.96	262,185.04
25	UP NA-3957	23/02/2022	1,100,000.00	841,902.32	258,097.68
26	UP QL-8331	31/01/2022	528,000.00	272,927.94	255,072.06
27	CP SO-7090	24/02/2022	235,000.00	35,962.85	199,037.15
28	62-5118	26/07/2022	700,000.00	517,321.06	182,678.94
29	NW BHA-5280	25/01/2022	209,930.00	50,784.22	159,145.78
30	CP YG-2159	25/02/2022	280,000.00	128,339.16	151,660.84

31	SP BEL-1982	25/01/2022	484,000.00	336,206.17	147,793.83
32	WP GN-7046	31/10/2022	328,000.00	199,753.17	128,246.83
33	CP BGY-6290	27/05/2022	181,930.00	57,467.18	124,462.82
34	NW BHL-1330	22/03/2022	138,530.00	20,784.13	117,745.87
35	SP AAA-3347	25/01/2022	245,000.00	147,909.66	97,090.34
36	WP YM-6018	26/01/2022	330,000.00	249,672.47	80,327.53
37	WP YK-9314	23/02/2022	330,000.00	269,180.88	60,819.12
38	WP YT-6120	23/02/2022	280,000.00	219,279.15	60,720.85
39	NP LJ-6670	31/05/2022	830,000.00	791,992.06	38,007.94
40	EP BEK-5654	25/01/2022	164,100.00	135,413.91	28,686.09
41	WP JW-5909	05/07/2022	1,540,000.00	1,535,715.35	4,284.65
42	NW DAB-0377	25/05/2022	770,000.00	768,236.51	1,763.49
43	NW GL-7931	22/12/2022	1,250,000.00	1,248,367.94	1,632.06
Total			61,565,170.00	44,113,139.14	17,452,030.86