

Pradeshiya Sanwardana Bank - 2022

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Pradeshiya Sanwardana Bank (the “Bank”) 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, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. 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 determines 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 intends 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 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 Observation on the preparation of Financial Statements

1.5.1. Internal Control over the preparation of financial statements

Audit Issue	Management Comment	Recommendation
I. Extensive manual calculation process was observed due to adoption of SLFRS, in the financial statement closure process. The entries relating to the SLFRS calculations were directly posted to the financial statements without adjusting to the General Ledger.	In case of year end financial statement preparation, required SLFRS workings (SLFRS 16 & 09) had been done and finalized with the external auditor's observations. Then, relevant journal entries had been posted to financial statements for finalizing the year end financial statements. Once, we received the opinion from the auditors, relevant journal entries pertaining to SLFRS had been posted to General Ledger.	Take necessary actions to strengthen the internal controls relating to preparation of financial statements.
II. A Central Liability Report and review process of Individual Significant Loans in the individual impairment calculation working was unavailable and further improvements were required in the impairment computation process.	Bank has been taken actions to increase the Individual Significant Loan threshold to 10Mn. and it will reduce the practical difficulties for collecting information from the bottom level. Also, objective evidence evaluation process and cash flow predictions will be independently assessed by Risk Management Department in future workings. Therefore, in future workings this concern will be rectified.	Establish a proper mechanism to monitor and ensure the accuracy of impairment computation process.

<p>III. There is a delay in submitting financial statements and making frequent adjustments based on the audit findings and errors in notes to the financial statements during the audit and those errors were mainly due to not reviewing the submitted financial statements by a separate division of the Bank.</p>	<p>Currently, Internal audit division has been reviewing the financial statements in quarterly basis. In addition, monthly financial statements have been submitted to risk management division also.</p>	<p>Establish effective controls to independently verify and ensure the accuracy of financial statements.</p>
<p>IV. Several general ledger accounts under the same description had been created by the Bank which make confusion when posting entries to the relevant ledger accounts. Further, minus balances were observed in relation to some income accounts.</p>	<p>We will take necessary actions to rectify the highlighted concerns over general ledger accounts to ensure the consistency of the financial reports.</p>	<p>Take necessary actions to strengthen the internal controls relating to preparation of financial statements.</p>

1.5.2 Unreconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
<p>I. Actions had not been taken by the Bank to reconcile interest in suspense-covid 19 account. The Bank had reconciled this account by crediting Rs.557,059,726 to creditors' account and debiting Rs. 52,457,212 to debtors' account. Further the Bank was unable to submit a centralized report towards the customer wise breakup of the above balance.</p>	<p>Actions will be taken to rectify the difference between contra accounts of the bank in connection with respective branches.</p>	<p>Take necessary actions to reconcile interest in suspense Covid 19 and related receivable accounts and refund any excess interest collected from customers by not adhering with CBSL Directions.</p>

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| <p>II. A difference of Rs. 5,156,027 was observed between the general ledger balance and the balance of loans master list prepared for the impairment computation with regards to the interest receivable of loans.</p> | <p>Noted for future rectifications.</p> | <p>Take necessary actions to reconcile the unreconciled records without further delay and to ensure the accuracy of balance appeared in the General Ledger.</p> |
| <p>III. It was observed that 94 numbers of fixed deposits aggregating to Rs. 2,591,875, were kept for several years (around 8 years to 11 years) without paying interest and renewing.</p> | <p>All the Regional General Managers have been instructed to rectify and take measures for the identified fixed deposits. An officer of the Operations Department has been appointed to supervise these kinds of concerns.</p> | <p>Establish effective controls to monitor and correct such issues.</p> |
| <p>IV. A credit balance of Rs.1, 684,991 was observed in Debtors' Control Account of the Bank's Head Office as at 31 December 2022.</p> | <p>The debtor's control account consists of the sum of the receivables pertaining to Former Lankaputhra Development Bank GL balances remained at the merger. Some of these balances consist of unusual GL balances, due to prevailed system issues of former LDB banking system (NTPL). For which we have sought advice from the IT department to rectify the unusual figures in asset accounts. However, they state, since the vendor support for the NTPL BancMate system has been terminated it is not possible to clarify the validity of the system generated individual entries from outside.
Therefore, the total of such balances was transferred to the debtor's control account since the write-off cannot be implemented if future inquiry takes place from</p> | <p>Take necessary actions to reconcile the debtors' control account without further delay and to ensure the accuracy of balance appeared in the respective account.</p> |

the branch end/customer.

V. The Credit balances aggregating to Rs.1, 970,815 were observed in “Prepaid Legal Charges” account in following branches as at 31 December 2022.

All the Regional General Managers have been instructed to rectify the existing credit balances of these prepaid legal chargers accounts. An officer of the Operations Department has been appointed to supervise these kinds of concerns.

Take necessary actions to rectify the Prepaid Legal Charges account without further delay and to ensure the accuracy of balances appeared in the respective account.

No	Branch	Amount (Rs.)
1	Bulathsinhala	317,352
2	Panadura	38,761
3	Moragahahena	13,645
4	Negambo	168,275
5	Ambalantota	4250
6	Elpitiya	2,185
7	Batapola	58,986
8	Gonagalapura	682
9	Hambantota	532
10	Ranna	3,701
11	Dewalegama	71,743
12	Pothupitiya	1,261
13	UvaMaligathenna	1,329
14	Eraur	117,016
15	Nikaweratiya	1,935
16	Nattandiya	56
17	Giriulla	142,749
18	Mundel	448,160
19	Nawagaththegama	1,507
20	Mampuri	85,828
21	Polpithigama	377,173
22	Ambanpola	3
23	Kalpitiya	35,964
24	Wennappuwa	50,239
25	Bogaswewa	27,483
	Total	1,970,815

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue

Management Comment

Recommendation

- I. Advance payment balances aggregating to Rs. 10,839,246 were remained outstanding more than one-year period of time without any settlement. Details are given below. Actions will be taken for rectify the concern. Take necessary actions to clear the advance payment after completion of works and final payments have been made.

Date	Description	Amount (Rs.)
03/06/16	75% Consultancy fees - 5 floor	56,250
19/04/2017	Kamburupitiya Interior Works - 88% payment	763,413
09/06/2020	CBS CR Changes Advance 50%	1,175,498
02/07/2021	20% Advance on Agreement sign stage & 10% Advance on GAP Analysis & SRS Documentation	3,780,000
Total		5,775,161

- II. The balances brought forward in the accounts of Swashakthi Grant, Recoverable Reimbursement Warehouse, Rent Paid in Advance, Debtors and Debtor balances - Head office were remained outstanding since considerable period of time without any settlement. The satisfactory actions had not been taken by the Bank to recover the long outstanding receivable balances. The details are given in Annexure 01. Please refer Annexure 01. Take necessary actions to recover the long outstanding receivable balances without further delay.
- III. The balance amounting to Rs.3,084,424 was remaining in the Receivable on Tax account since more than 4 years period of time (since 2018). Therefore, recoverability of this balance is doubtful. Actions will be taken to rectify this concern with the recommendations of Assets and Liabilities Committee. Take necessary actions to recover the long outstanding receivable balances without further delay.

<p>IV. The loans and leasing facilities with aggregated outstanding balance of Rs.184,384,985 had been maintained manually without entering into the system.</p>	<p>This has been taken place as a result of data migration from Lankaputhra Development Bank to Regional Development Bank since RDB acquired the LDB bank.</p> <p>Leasing - Non- Performing Leasing are recorded and maintained manually since huge sum of money on technical assistance has to be borne. Cost submitted was not reasonable.</p> <p>SME loans- LDB acquired SME Bank in 2008 then RDB acquired LDB, as a result of that data migration from one system to another is a somewhat complex. Therefore, such records are maintained manually as per the information given by IT department.</p>	<p>Establish a proper mechanism to record loans and leasing facilities in the system.</p>
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1.6.2 Payables

Audit Issue	Management Comment	Recommendation
<p>I. The Credit Guarantee Indemnity balance as at 31 December 2022 was Rs.17,685,884 and this was disclosed under the other liabilities in the financial statements and evidences were not available to confirm the accuracy of this balance. It was further observed that Credit Guarantee Indemnities worth of Rs.6,538,033 have been remained since 2019 without taking place any transaction.</p>	<p>Necessary actions would be taken to rectify this concern by the end of this year.</p>	<p>Take necessary actions to settle long outstanding payable balances without any further delay and reconcile any differences.</p>

- II. The unclaimed balances of the following branches had been remained outstanding since more than 5 years period of time (before the year 2018). Satisfactory actions have not been taken by the Bank to clear the long outstanding unclaimed balances.
- Actions has been taken to clear the mentioned outstanding balances in connection with respective branches.
- Take necessary actions to settle long outstanding unclaimed balances without further delay.

Rathnapura	1,278,647
Balangoda	2,590,890
Embilipitiya	1,743,375
Yatyanthota	3,678,537
Ruwanwella	1,958,491
Branches of Western Province	15,097,370
Total	26,347,310

- III. It was observed that the balance of Staff Welfare Fund and Sahana Special Revolving Fund amounting to Rs. 4,451,392 and Rs. 2,705,647 respectively were remained outstanding since 2013 and 2014 financial years.
- Necessary actions would be taken to rectify the concern by the end of this year.
- Take necessary actions to settle the long outstanding balances of Staff Welfare Fund and Sahana Special Revolving Fund without further delay.
- IV. The Creditors' balances aggregating to Rs. 21,347,832 have been remained outstanding since considerable period of time. Satisfactory actions have not been taken by the Bank to clear the long outstanding creditors' balances. Details are given below.
- Necessary actions would be taken to set off these long term outstanding with the recommendations of Assets and Liability Committee.
- Take necessary actions to settle the long outstanding creditors' balances without further delay.

Year	Total Unsettled Balance in each year
2011	168,976

2012	321,437
2013	574,976
2014	5,390,944
2015	3,244,902
2016	1,812,223
2017	5,542,511
2018	950,026
2019	1,797,697
2020	740,534
2021	803,606
Total	21,347,832

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

Reference to Laws, Rules and Regulations etc	Non compliance	Management Comment	Recommendation
I. Section 4.4 of CBSL Directions No.13 of 2021 dated 14 September 2021.	As per the referred direction, License Specialized Banks shall not fund to recover of any credit facility provided to any borrower by the same Bank. However, the tested sample of 36 non-performing loans with the total outstanding balance of Rs. 2,609,690 as at 30 September 2023 were settled against new loans issued by the Bank within the period from 30 September 2022 to 31 December 2022 and the Bank has not received the cash from the above customers.	A discussion on violation of directions of CBSL of settlement of existing non-performing loans using new loans was held with the participation of department heads and it was decided to issue a circular to prevent such violations. A circular (2010-05) addendum x was issued covering relevant areas)	Take necessary actions to adhere with the cited Direction of CBSL.
II. Financial Transaction Reporting Act No. 06 of 2006	The Bank had failed to screen individual customers against United Nation	Agreed, due to unavailability of the AML System up to 2023 and difficulties in carrying out	Take necessary actions to adhere with the cited Direction.

and Financial Security Council manual process, the bank
Institutions Resolution list of was not in a position to
(Customer Due designated persons or comply the guideline.
Diligence) Rule entities at the time of With the implementation of
No.01 of 2016. onboarding, maintain AML System since
all relevant UNSCR 01.04.2023, bank was able
list of designated to screen designated persons
persons or entities as at the time of customer
well as establish any onboarding by branch level.
mechanism to screen Further, the Bank maintains
the existing customer all relevant UNSCR list, and
base when the UNSR the Schedule screening
list were updated in process has been started on
order to ensure that no 21.08.2023 after taking
business relationship several attempts.
was held by or linked Further, we ensure that the
to any of the entities bank maintains Customer
or individuals Due Diligence (CDD)
including in the measures and obtaining the
updated designated identification document from
lists. the buyer of pawning
Further, the Bank had auction.
failed to maintained
customer due
diligence measures
and obtained copy of
the identification
document from the
buyer of pawning
auction. Due to that a
penalty of Rs. 500,000
was imposed by the
Central Bank of Sri
Lanka on 21 February
2023.

<p>III. Section 6.6 of the Operational Manual for State Owned Enterprises - 2021</p>	<p>Draft annual report and accounts had not been submitted to the Auditor General within 60 days after the closing of the financial year 2022.</p>	<p>Draft annual report has not been finalized due to administrative issue in relation to selecting of the Annual Report Company. However, required actions are being taken to select the annual report company.</p>	<p>Take necessary actions to adhere with the cited Direction.</p>
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We finalized the draft financials for the year ended 31st December 2022 by end of February 2023 and submitted for approvals from the BOD prior to submitting to auditors. However, approval from the BOD was received on 20th March 2023 once the BOD appointed to the bank.

<p>IV. Section 2.1.1 of Procurement Guideline - 2006 and Public Finance Circular PF/429 (i) dated 17 March 2008.</p>	<p>Own developed procurement manual had been used by the Bank without obtaining approvals from Director General of Public Finance.</p>	<p>The management of the bank has decided to implement the Government Procurement Manual 2006 instead of RDB Procurement Manual 2015 until grant an approval by relevant authorities (A letter attached as Annexure 2). The approval obtaining process from newly appointed National Procurement Commission for RDB Procurement guideline prepared in 2015 is in progress.</p>	<p>Take necessary actions to adhere with the cited Direction.</p>
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1.8 Non-compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
<p>I. PAYE Tax /APIT Every Employer is required to deduct income tax from the gains and profits from employment of each employee who is liable to pay income tax</p>	<p>Before merging in to one entity in 2010 permanent employees in the six provincial banks had been enjoying the benefit of bearing the PAYE tax component by the employer. Further, Section 45 (2) (d) of</p>	<p>Take necessary actions to adhere with the cited Directions and pay taxes accordingly.</p>

with his consent. Contrary to the section 114 of Inland Revenue Act, No. 10 of 2006, Section 83 of Inland Revenue Act, No. 24 of 2017 (effective from 01.04.2018), Public Finance Circular No. PF/PE/06 dated 31 January 2000 and Public Enterprises Circular No. PED 03/2016 dated 29 April 2016, the Bank had paid Pay As You Earn (PAYE- APIT) tax amounting to Rs. 43,321,736 for the year 2022 out of its own funds on behalf of its employees instead of being deducted from the salaries of the respective employees. As per PED 03/2016, the Board of Directors and senior Management of SOEs should ensure to deduct PAYE tax and remit to IRD.

Pradeshiya Sanwardena Bank Act No. 41 of 2008 states that “all such officers and servants of the Vesting Bank or Banks and were holding a permanent post in such Vesting Bank or Banks on the day immediately preceding the date of vesting shall with effect from the date of such vesting, be offered employment on terms and conditions not less favourable than the terms and conditions which were previously enjoyed by them with the acquiring bank”. On this basis RDB has been continuing bearing of PAYE tax liability of employees as an expense of the Bank. In addition, under the provisions of collective agreement with Ceylon Bank Employees’ Union, the bank has been paying PAYE / APIT as the case may be of the employees like other state own banks, following the same practice and this is not a prohibited practice by the Inland Revenue Act. However, APIT is being deducted from the employees’ salaries from January 2023 onwards upon directions of Ministry of Finance.

2. Financial Review

2.1. Financial Result

The operating result of the year under review amounted to a profit of Rs.359,115,328 and the corresponding profit in the preceding year amounted to Rs. 775,504,600. Therefore, a deterioration amounting to Rs. 416,389,332 or 53.7 percent of the financial result was observed. The main reasons for the deterioration are increase of interest expenses and increase of personal expenses.

2.2. Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review when compared with the preceding year is as follows.

Description	Variance Increase/ (Decrease) (Rs. Million)	Variance Percentage	Reason for the Variance
Interest Income on loans and advances	5,349.7	26.8	Increase of Gross Loans by 13 percent and increase of interest rates.
Interest expense on customer deposits	9,123.4	107.5	Increase of interest rates on customer deposits.

2.3. Ratio Analysis

Some of the important ratios of the bank for the year under review and the preceding year together with the sector ratios are given below.

	Sector Ratios (Licensed Specialized Banks)		
	2022 Percentage	2021 Percentage	2020 Percentage
<u>Profitability Ratios</u>			
Net Profit Ratio (PAT)	1.16	3.73	1.25
Net Interest Margin	2.05	6.18	6.08
Net Interest Income on Interest Income	24.39	44.32	57.98
Non-Interest Income to Total Income	1.41	2.57	3.87
Interest Cost to Interest Income	75.61	55.68	42.02
Staff Cost to Operating Expenses	67.10	76.95	80.1
Return on Average Assets (ROA)	0.14	0.51	0.13
Return on Equity (ROE)	2.32	8.32	1.99
Earnings Per Share		2.45	0.56
<u>Asset Quality</u>			
Non Performing Advance Ratio			8.71
- Impaired Loans (Stage 3) Ratio (%) (Net of Stage 3 impairment) (From 2022 onwards)	9.04	6.53	-
- Impairment (Stage 3) to Stage 3 Loans Ratio (%) (From 2022 onwards)	31.36	31.95	-
<u>Capital Adequacy Ratios</u>			
	Minimum Requirement		
Common Equity Tier I Capital Ratio	7.5	8.29	8.72%
Total Tier I Capital Ratio	8.5	8.29	8.72%
Total Capital Ratio	12.5	15.22	14.27%
<u>Liquidity Ratios</u>			

3. Operational Review

3.1. Management Inefficiencies

Audit Issue	Management Comment	Recommendation
I. Following Intangible assets which are acquired from the Lankaputhra Development Bank, were not currently in use. Details are given in Annexure 02.	Please refer Note 01 to 12 in Annexure 02.	Take necessary actions to convert those assets to usable condition or to dispose.
II. Following Intangible Assets of the Bank were not currently in use. Details are given in Annexure 03.	Please refer Annexure 03	Take necessary actions to convert those assets to usable condition or to dispose.

3.2. Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>Following common deficiencies have been observed during the sample of loan files checked in 07 branches.</p> <ul style="list-style-type: none"> • Non - availability of renewed insurance certificate. • Non - availability of inspection report after the loan disbursement. • Loan application had not been signed by the Manager. • Lack of documents or incomplete documents of Extracts, Secondary Mortgage Bond, Environmental Protection Certificate, Form 83 and 84 for 2nd Guarantor, Guarantor CRIB Report, Proofs for Invoices and Supplier Payments, Valuation Report, Proof Documents to verify income etc. 	<p>A few operational issues may take place time to time at manual loan approval process. In such cases, credit department issues required instructions to rectify such information. Further, bank is implementing for new loan approval system called as Loan Origination System (LoS). This is a cutting-edge technology-based system. For selected loan products, LoS is implementing in Western Province. So, it is expected to prevent such errors and omissions once LoS is fully implemented. Apart from that, all the Regional General Managers have been instructed to correct these kinds of lapses identified in the loan files. further, the confirmations on rectifying the identifying lapses in branch operations are obtained by the monthly reports submitted by the branches to</p>	<p>Take necessary actions to disburse and recover loans in accordance with the conditions of the approving authority, issued circulars and guidelines. As well it is required to obtain all the necessary documents and ensuring the completeness of such documentations before loan disbursements.</p>

the Operations Department.

3.3. Transactions of Contentious Nature

Audit Issue

Printing, Personalizing and Delivery of 200,000 chip-based VISA Debit cards.

- I. When the Board fail to appoint a fit and proper person for the post of General Manager/ Chief Executive Office (GM/CEO), that appointment will not be legitimate and acceptable as per the requirements in the Banking Act and Pradeshiya Sanwardhana Bank Act. Therefore, all the decisions and involvements of the purported GM/CEO appears to be invalid due to the defect in the appointment.

The Acting General Manager of the Bank has signed for the selection of a card association and proposed activity plan of the Banks' Debit card project on 25 November 2021 without having the Fit and Proprietary certification issued by the CBSL as per the Fit and Proprietary Records of the Bank.

Therefore, the decision to implement this project and the advance payment made were not legitimate.

- II. As per Section 5.4.4 of the Procurement Guideline 2006, the maximum advance payment for any contact for works is 20 per cent of the contract sum against the submission of an acceptable advance payment guarantee. However, it was observed that Rs. 103,841,836 which is 70 per cent of the total project value had been paid for the selected company on 21 October 2022 for 200,000 No. of Chip Based VISA Debit Cards, which is a violation of the

Management Comment

The acting GM/CEO (Mrs. Damitha Rathnayake) was appointed by the Secretary of the Treasury and Ministry of Finance with the release of the former GM/CEO of the bank to the Ministry of Finance. Also she has held a responsible post in the Director of Treasury Operations Department of Ministry of Finance. Since her appointment was done by the Secretary of the Ministry of Finance, this position appears have a right to involve in the banking activities. Further she has taken all the crucial decisions in relation to the bank upon the discussions made by the Board of Directors, Board sub-Committees and the Corporate Management of the bank.

Therefore, we are at the view of that, the decision to implement this project was legitimate and the advance payment was also valid.

The Procurement Department has called bids for purchasing of 200000nos chip-based VISA debit card based on the request of the CIO. The procurement of 200000nos chip-based VISA debit card is coming under a part of the VISA card implementation project of the bank.

The Notification of Awarding

Recommendation

Take necessary actions to adhere with the cited Directions of Banking Act and Pradeshiya Sanwardhana Bank Act.

Take necessary actions to adhere with the cited directions of Procurement Guideline 2006.

stipulated direction.

(Purchasing Order) has been issued by the procurement department based on the approval of Board of Directors, the proposed service provider M/s Lake House Printers & Publishers PLC has requested the 70% Advance payment of total contract amount with considering the USD fluctuation as mentioned in the bid proposal. Based on the request of service provider and recommendation of CPC Major Procurement Committee, a board paper has been submitted by the procurement department for requesting approval to release 70% advance payment which amount of Rs. 103,181,792.00. The Board of Directors at the meeting held on June 27, 2022, granted the approval to release aforementioned amount by considering following matters related to this procurement,

- i. Rapid USD fluctuation during last few months
- ii. Scarcity of the chip card due to global war (Russia Ukraine war)
- iii. Similar practices in banking industry.

VISA implementation project has five main activities as mentioned below.

- III. It was observed that the selected company is holding the chips, till the data is receiving from the Bank. Though the Lake House Printers requested to share the embossing data many times, the Bank had not sent the information as requested. Therefore, it is questionable the reason for not sharing the relevant
- i. Work related to VISA and RDB
- ii. Work related to RDB, VISA and Nouse
- iii. Work related to RDB and Core Bank vendor
- iv. Work related to RDB and BOC
- v. Work related to RDB and Card printer (LHP)

data to complete the contract and receive the chips

It is a fact that the scarcity of the chips in the global market due to pandemic and the Ukraine war, Therefore, it is decided to place the card printing order as soon as possible anticipating the delays in chip allocation for the card printing.

However, other processors got delayed due to several reasons beyond the control of IT department. Most of these processors are interlinked sequential processors and delay in one activity will impact the other activities and delays accumulated.

Although the card printer completed his assignment, the IT department couldn't share the relevant data to complete the card printing job due to the delays in other processors.

IV. The selected company had to incur a further cost of Rs. 912,761 to extend the bank guarantee and they may compel to charge that amount from the Bank due to its' delay in sending the information

The bank may consider to incur or not to incur the cost of the extended bank guarantee in due course by evaluating the performance of the project and obtaining of advices regarding this matter.

3.4. Delays in Projects

Audit Issue	Management Comment	Recommendation
<p>I. Supply, Installation and Maintenance of an Inventory Control System Agreement with a Private limited company to Supply, Installation and Maintenance of an Inventory</p>	<p>In November 2017, the vendor completed the base version implementation of the "IT Asset Tracking System" for the bank. Since November 2017 bank is using the IT Asset</p>	<p>Ensure that activities and effective follow-ups are going on from the Bank's side to complete the projects on a timely manner and funds of the</p>

Control System for the Bank had been signed on 24 November 2016 for a sum of Rs.1, 550,000. According to the Condition No.04 of the Agreement and time plan of the project, all stages should be completed within 81 working days. Though, an advance payment amount of Rs. 930,000 has already been made the completion of the project is still pending.

Tracking system to manage the bank's IT Asset inventories in over 300 locations, which includes all the Departments, Branches, District offices, Province offices and the Head office. In addition to the inventory function and IT asset tracking, the bank uses the same system to manage the IT asset life cycle from acquisition to disposal with the system.

After the consequent modification and changes done to the system, we have identified some performance issues and non-critical bugs. Therefore, the IT Department hasn't granted the final signing-off on the solution. The vendor was agreed to complete this development by the end of 2nd quarter of this year. However, the system vendor failed to meet the deadline and is still working with the bank's IT Department to rectify the identified issues. Bank has set a new target date to complete the project by November 2023.

bank is effectively and efficiently utilized.

II. Software Development for Human Resources Management System

An agreement has been entered with a Private Limited Company for a software development for Human Resources Management System of the Bank on 17 December 2015 for a contract sum of Rs.11, 250,000. According to the Condition No.10.3 of the Agreement and time plan of the project, entire project should be completed by 30 November 2016. However, payments aggregating to Rs.7,786,945 have been made and the project was not completed till

Currently, six modules out of 11 modules of the human resource management system have been completed.

Percentage of completion of the remaining modules is indicated below:

1. Recruitment and Career Portal - 98% completed.
2. HR Business analysis and Reporting - 50% completed.
3. Superannuation and Severance - 25% completed.
4. Performance Management - 80% completed.
5. Employee Dynamics - 80%

Take necessary actions to utilize funds of the bank effectively and efficiently.

<p>the reporting date of the audit on 22.05.2023. The advance payments made are still remaining in the other assets account.</p>	<p>completed. All the above modules are scheduled to be completed by 31/12/2023. The amounts associated with the completed modules have been paid to Micro Image. The remaining amount will be paid upon completion of the respective items</p>
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3.5. Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>I. Following observations are made regarding the recruitments made during the year 2021/2022.</p> <p>i.) According to the available documents in personal files of 3811 and 3812, the CVs of those employees have been recommended by a Minister, as very much suitable for the relevant post. The Board Human Resource and Remuneration Committee has given the approval through the Board Minute Number BHRRC/2021/M-05/P19 dated 21 December 2021 to recruit them as Deposit Collectors of the Bank. It was observed that, the above recruitments have been made without following the approved recruitment procedure of the Bank and just only based on the Board approval.</p>	<p>Though their positions had been named as Deposit Collectors, the mentioned employees were placed in Labour Category. Those two have been recruited by considering the importance as well as the exigencies of the job role of deposit collection in Floating Market area and Self-employment Business area in Colombo.</p>	<p>Take necessary steps to recruit most suitable person in line with the issued circulars and guidelines considering the competencies of applicants and maintain the transparency in the recruitment process.</p>
<p>ii.) The procedure of hiring contract basis employees, the method of publishing the advertisement and the procedure of absorbing contract basis labors for various categories of positions (Eg: Drivers, Peons, etc) have not been furnished to the audit.</p>	<p>The Bank has followed the same procedure for recruiting labour category employees which had been followed on previous occasions.</p>	<p>Actions need to be taken to furnish required information to the audit.</p>
<p>II. Appointment of General Manager in 2022</p> <p>i.) Following observations are made regarding the marks given for the General Manager’s interview held on 28 January 2022.</p>	<p>In the approved Marking Scheme, it has been clearly mentioned that marks are given over and above minimum qualifications and no allocation has been done for</p>	<p>Take necessary actions to correct the errors identified in the marks given in the</p>

As per the Pradeshiya Sanwardhana Bank Act (PSB Act), minimum qualification for the above post was a degree from recognized university with postgraduate qualification or professional qualification in banking or any other relevant field. Therefore, degree from recognized university with postgraduate qualification has equalized to the Professional qualification and as such bank should have considered the professional qualification as entry requirement for the candidates who have both qualifications since equal marks had not been allocated for equivalent qualifications. Same practice had been applied for the interview held on appointing General Manager (GM) on 02 October 2019 and professional qualification had been considered as entry requirement for the candidates who have both qualifications. However, 4 marks and 3 marks had not been given by the bank for other 2 candidates considering their basic qualification as professional qualification.

ii.) As per the decision of the Board Paper No.2022/2927 dated 12 January 2022, the Board had decided to remove the negative marks for age and to apply the previous marking scheme which was used at the last interview. Additional 2 marks or 3 marks respectively had been given for the associate membership or fellow membership of professional qualification of candidates during the previous interview held in 2019. However, Bank had not given such marks during this interview.

iii.) According to the marking scheme, a candidate who has passed the degree with a class will get an additional 1 mark. However, such an additional 1 mark was not given to the candidates who had obtained the degree with a class.

basic/entry requirements. If a candidate has qualified with section 26(1)(a) as per the Pradeshiya Sanwardhana Bank Act No. 41 of 2008, it cannot be considered twice.

The marks have been allocated for the professional qualifications under 2(b), as per the marking scheme which had been approved by the Board in 2019.

In the approved Marking Scheme, it has been clearly mentioned that marks are given over and above minimum qualifications and no allocation has been done for basic/entry requirements. If a candidate has qualified with section

interview. Further, every step should be taken to recruit/promote most suitable person in line with the issued circulars and guidelines considering the competencies of applicants and maintain the transparency in the recruitment and promotion process.

26(1)(a) as per the Pradeshiya Sanwardhana Bank Act No. 41 of 2008, it cannot be considered twice.

- iv.) Above interview had been conducted by 7 directors including the chairman. Some directors had given same marks for all 3 candidates and other directors had given closer to maximum marks for 1 candidate. Further, it was observed that marks given in the interview for some candidates are questionable with the submitted information relating to subject knowledge of their applications. One director had given 18 marks for the subject knowledge of selected candidate. However, details relating to experience of IT, finance & marketing were not available in the submitted application and therefore, it is questionable of giving 18 marks out of 20 for the subject knowledge.
- The interview panel was comprised with Mr. Neel Bandara Hapuhinna (Secretary-State Ministry of Samurdhi, Household Economy, Micro-finance, Self-employment and Business Development) and 06 Board of Directors of Pradeshiya Sanwardhana Bank including Chairman. The marks have been given independently in a rational manner.

Annexure 01

General Ledger Account	No.	Description Branch	Amount (Rs.)	Management Response	
Swashakthi	1	Walagedara	30,000		
Grant Account	2	Agalawatta	90,000		
	3	Panadura	225,000		
	4	Horana	550,000		
	5	Kalutara	20,000		
	6	Moragahahena	17,500		
	7	Imaduwa	30,000		
	8	Thissamaharama	200,000		
	9	Thangalle	270,000		
	10	Walasmulla	270,000		
	11	Ranna	10,000		
	12	Karapitiya	171,750	It has been planned to correct by getting approval from the Executive Credit Committee.	
	13	Kaluwella	10,000		
	14	Kitulgala	180,000		
	15	Rathnapura	10,000		
	16	Kiriella	28,000		
	17	Pulungupitiya	90,000		
	18	Gampola	10,000		
	19	Laggala	180,000		
	20	Raththota	60,000		
	21	Daulagala	40,000		
	22	Peradeniya	60,000		
	23	Passara	40,000		
	24	Welimada	10,000		
	25	Rideemaliyadda	40,000		
	26	Bandarawela	133,000		
	27	Meegahakiwula	100,000		
	28	Bogahakumbura	50,000		
	29	Trincomalee	50,000		
	30	Mundel	30,000		
	31	Bogaswewa	10,000		
	32	Kanakarayankulam	1,341,500		
	Total		4,356,750		

Recoverable Reimbursement Warehouse account	1	Head Office (Balances had come from 2017 to 2020)	2,613,184	Actions are being taken to reimburse the mentioned expenses in future.
	2	Anuradhapura	176,455	Actions are being taken to rectify this issue.
Total			2,789,639	
Debtor's account	1	Agalawatta	101,900	Since this is a long-term balance due to a misplaced amount in a robbery on 18.11.2004, it has been planned to correct by getting approval from the Asset Liability Management Committee.
	2	Beruwala	1,064,840	This is the amount that was paid as compensation to customers under the correction of the gold fraud in 2006. Currently, legal proceedings are being carried out under case No. BR 4330.
	3	Anamaduwa	202,097	It has been planned to correct this amount by getting approval from the Asset Liability Management Committee.
Total			1,368,837	
Debtor Balances - Head office	1	2018	24,750	Actions will be taken to rectify the issue by getting approval from the Asset Liability Management Committee.
	2	2019	74,603	Actions will be taken to rectify the issue by getting approval from the Asset Liability Management Committee.
	3	2021	13,829,414	This amount paid to Tax Appeal Commission (TAC) pertaining to Y/A 2016/2017 to ensure the TAC appeal procedures according to the section 7 of the TAC Act no 23 of 2011. This amount can be set off once we received the determination from the TAC.
Total			13,928,767	
Grand Total			22,443,993	

	Description	Acquisition Date	Purchase Value (Rs.)	Response
1	E & W Information Sy	1/21/2008	3,397,100	<p>Note 1</p> <p>LDB bank purchased the Core banking solution (BancMate) in 2007 from the Ewis Information System and used it up until the LDB RDB amalgamation in April 2019. As RDB is using the Intellect CBS system, Accounts operated in the BancMate system during the LDB operations were migrated to the RDB CBS and BancMate system was discontinued from the live operation. However, the bank uses a copy of the BancMate system in the archive mode to retrieve past transaction details in migrated accounts. The items are identified as the payments related to the BancMate and related services and licenses. As AMC contracts are discontinued with the vendor of this system, and the solution is not customized for RDB operations, it cannot be used for live operations anymore. Hence, actions will be taken to write off the asset balance before the next year with the recommendation of Assets and Liabilities Committee.</p>
2	E-W Information Syst	1/2/2009	849,275	
3	NTPL System - Cost	12/31/2010	5,893,230	
4	NTPL System - Cost	12/31/2010	2,954,000	

5	Certification of Imp	6/13/2005	1,150,000	Note 2
6	Automated Core Banki	8/30/2006	1,000,000	

Before 2007, LDB Bank had used a software solution developed by DMS Software Technologies for banking operations. It was discontinued from operation in 2007 with the acquisition of the BancMate system.

The items are identified as the payments related to the DMS software solution and related services and licenses. As AMC contracts are discontinued with the vendor of this system, and the solution is not customized for RDB operations, it cannot be used for live operations anymore. Hence, actions will be taken to write off the asset balance before the next year.

7	Data conversion,cust	1/31/2007	250,000	Note 3
8	On copmletion of mil	1/31/2007	875,000	

These items were identified as the One-time service support fee paid to the DMS for the data migration from the DMS software solution (Note 02) to the BancMate Core banking system (Note 01). Therefore, actions will be taken to write back to the P&L.

9	Windows Terminal svr	1/31/2007	226,492	Note 4
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The LDB originally used Windows Terminal Server 2003 license to access the DMS software solution (Note 02) from remote branches. But the BankMate (Note 01) was developed to access the system remotely over the web browser. Therefore, with the implementation of the BankMate systems Windows Terminal Service was discontinued from the live operation. Windows Terminal Server 2003 license is associated with Windows 2003 server version which was at the end of its life. Therefore, Windows Terminal Server 2003 licenses are no longer usable. Hence, actions will be taken to write off the asset balance before the next year.

10	License Fee for polo (Polonnaruwa)	3/27/2007	500,000	Same as note Note 01
11	Ocompletion of Miles	4/10/2007	250,000	
12	Thibus Trilingual So	5/29/2007	17,500	Note 05 The Thibus Trilingual Solution version bank had was a hardware key-based (Parallel Port) solution which is not compatible with modern PC operating systems and hardware. Obsolete Technology is no longer usable. Hence, actions will be taken to write off the asset balance before the next year.
13	License Fee for polo (Polonnaruwa)	9/24/2007	500,000	Same as Note 01
14	Thibus Trilingual So	6/3/2005	46,500	Same as Note 05
15	Acronis True Image	1/28/2008	460,920	Note 06
16	Acronis Maintanance	1/28/2008	92,184	“Acronis True Image” is the utility software that LDB has used to take on-site system backups. Item no. 15 to 19 have been identified as payments related to Acronis utility software licenses and related payments. LDB replaced this software with the VEEM backup Software in 2015. The version with LDB is now outdated and no longer usable. Hence, actions will be taken to write off the asset balance before the next year.
17	Acronis Media Pack	1/28/2008	6,000	
18	Acronics True Image	1/28/2008	137,954	
19	Acronics Maint True	1/28/2008	27,600	
20	DATA submission DMS	3/27/2008	215,625	Same as Note 03
21	Payment for System A	5/2/2008	1,150,000	Note 07 Details provided are not sufficient to identify the system/asset.
22	Migration of Data fr	6/30/2008	344,655	Same as Note 03
23	E-wis Information Sy	7/10/2008	3,397,100	Same as Note 01
26	PROFESSIONAL FEES FO	12/30/2015	336,000	Note 08 This seems to be a one-time payment for professional service. Therefore, actions will be taken to write back to the P&L
27	PGC desktop professional	1/18/2010	41,448	Note 09 PGP desktop professional utility was used to encrypt the offline data file submitted to the CRIB. After the bank completed the online file submission process to CRIB, the requirement of a PGP utility was not raised. The PGP Desktop professional version with LDB is now outdated and no longer usable

in modern desktop operating systems. Hence, actions will be taken to write off the asset balance before the next year.

28	Application Software	3/1/2012	1,025,000	Same as Note 07	
29	Windows Server Standa	1/22/2014	851,558	Note 10	Detailed provided are not sufficient to identify the exact payment for the license. However, Bank has already utilized all the Windows Server Operating System licenses transferred from the LDB bank.
33	VEAM BACKUP & REPLI	12/30/2015	113,735	Note 11	The “VEAM BACKUP & REPLICATION” is the set of backup and replication tools used to synchronize LDB systems between the primary Data Center and the DR site in addition to the on-site backup. LDB had 05 years of subscriptions for the tools from 2015 to 2022. With the LDB RDB amalgamation, LDB data centers were shut down after completing the Data Migration. Therefore, bank has not renewed the subscription for these tools, as RDB is using a separate set of tools for the same purpose. Hence, actions will be taken to write off the asset balance before the next year.
34	VEAM BACKUP & REPLIC	12/30/2015	113,735		
79	VEAM BACKUP & REPLIC	12/30/2015	113,735		
80	Monitoring System fo	6/24/2016	771,899	Note 12	The LDB has maintained their own data center, at their own Head office premises. Therefore, they have purchased a solution to monitor the data center. With the LDB RDB amalgamation, LDB data centers were shut down after completing the Data Migration. As RDB data centers are hosted in the SLT & Dialog industrial level data centers, a separate data centers monitoring system is not required. Therefore, AMC and support agreements for the LDB's monitoring system were not continued. Hence, actions will be taken to write off the asset balance before the next year.
Total			27,108,245		

Annexure 03

No.	Purchase date	Description	Cost (Rs.)	Response
1	18-Oct-2012	SYMC Net backup Platform	9,089,963	A backup solution used for data backup. The license is expired and currently not in use.
2	14-Sep-2015	BIT*64 English DVD Correction	111,555	This is a correction entry and actions will be taken to write off the asset balance before the next year.
3	29-Mar-2017	Rack Server for Antivirus Software	751,992	A server used to install the antivirus server. The antivirus software has been changed due to license expiry. However, the server is utilized by the bank for other purposes.
4	1-Mar-2019	Audit Tool Software	2,173,113	A software used by the Internal Audit Department and currently not in use due to license expiry.
5	24-May-2022	ESET Antivirus Licenses 2500	718,750	License expired. A new antivirus software in use.
TOTAL			12,845,373	