

## **Pradeshiya Sanwardana Bank - 2023**

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### **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 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy information, 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 reported 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 2023, 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**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
I. Additional calculations were arisen due to the adoption of SLFRSs and	Additional workings relating to the SLFRSs are done quarterly	Take necessary actions to strengthen the internal

therefore it was observed that the entries were directly adjusting to the financial statements without adjusting to the General Ledger during the financial statements closure process.

and yearly subject to the changes due to observations raised by the auditors. However, those adjustments are adjusted in financial statements manually pertaining to the quarterly and yearly. Once, the completion of the audit, all entries are posted to the General Ledger.

controls relating to preparation of financial statements.

- |   |   |   |
|---|---|---|
| <p>II. Unavailability of Central Liability Report and review process for the Individually Significant customers may hinder the effectiveness of the individual impairment computation process and it requires further improvements.</p>                     | <p>An internally developed Centralized Asset and Liability report has been added to the MIS system.<br/>The impairment computation process is done purely based on the data received from the branches pertaining to Individually Significant Loans.</p>  | <p>The Centralized Asset and Liability report has not link with the impairment computation. Therefore, it is recommended to establish a proper mechanism for data capturing and impairment review to ensure the accuracy of impairment computation process.</p> |
| <p>III. Financial Statements have not been reviewed by a separate team or a division to minimize the errors and this was evident through frequent audit adjustments and errors in the disclosures.</p>  | <p>It will be assigned to the newly recruited Assistant General Manager since 2024.</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 confusions when entering balances to the relevant ledger accounts. Further, minus balances were observed in relation to some income accounts.</p> | <p>Action will be taken to solve the issues with relevant ledger accounts coordinating with the IT Division. Furthermore, there are minus balances in relation to some income accounts due to system implementation level issues. This issue is being resolved with the assistance of CBS vendor.</p> | <p>Take necessary actions to strengthen the internal controls relating to creation of GL accounts.</p>  |

### 1.5.2 Unreconciled Control Accounts or Records

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>I. A difference of Rs. 46,401,371 was observed in relation to closing balance of loans and interest receivable, in between balances as per the loan master file and the balance as per the Financial Statements under the Note No. 21 as at</p>	<p>Actions are being taken to rectify this issue.</p>	<p>Take necessary actions to reconcile the unreconciled records without further delay and to ensure the accuracy of</p>

31 December 2023. Details were given in *Annexure I*.

balances appeared in the financial statements. .

II. A difference of Rs. 47,047,552 was observed in between the outstanding balances of the Lease (manual) master file and the General Ledger Balance as at 31 December 2023. Details are as follows.

According to the balance of GL A/c 115175110 (Finance Leasing - LDB Manual) and GL A/c 116100120 (Finance Leasing - LDB Manual), the General Ledger Balance was LKR. 52,023,609/- as at 31.12.2023. Hence, the difference between the master file and GL was LKR.3,012,819/- and action will be taken to clear the difference with coordinating respective officers in the leasing division of the bank. Furthermore, these differences have remained at the inception level of the merger of LDB with RDB and intend to complete it before 31.12.2024.

Take necessary actions to reconcile the unreconciled records without further delay and to ensure the accuracy of balance appeared in the financial statements.

<b>Description</b>	<b>Balance as at 31/12/2023 (Rs.)</b>
Lease (manual) Master File Balance	49,010,790
General Ledger Balances	96,058,342
Difference	-47,047,552

II. A difference of Rs.42,429,586 was observed in between the balance as per general ledger and the balance as per trial balance in relation to the GL account of "Interest in Suspense Due NPL" (GL No. 230110105) as at 31 December 2023. However, this difference has been adjusted manually without entering to the system.

Actions will be taken to rectify the issue.

Take necessary actions to reconcile the unreconciled records without further delay and to ensure the accuracy of balance appeared in the financial statements. .

<b>Description</b>	<b>Balance as at 31/12/2023 (Rs.)</b>
Balance as per GL 230110105	7,885,042,851
Balance as per Trial Balance	7,927,472,437
Difference	42,429,586

IV. The difference of Rs.16,708,833 occurred as at 31 December 2023 in between the contra accounts of interest in suspense for non-performing loans and the Interest receivable account of General Ledger was transferred to the

GL accounts pertaining to contra GL accounts are being maintained at branch level and all contra GL accounts should be reconciled timely to ensure the accuracy of recording transactions. Hence, the finance

Take necessary actions to reconcile the Creditor' control account without further delay and to ensure the accuracy of balance appeared in

Creditors account (GL No: - 230165100).

division will take action to the respective account. inform branches in view of the As well should ensure the reconciliation of contra GL that contra accounts accounts timely to avoid the are off set with each recording of differences as other. debtors or creditors at the year-end financial reporting process. Further, differences pertaining to contra-GL accounts have been recorded as debtors or creditors at year-end financial statements as nominal entries in trail balance only for the purpose of preparing financial statements and have not been posted to GL.

V. The difference of Rs.5,898,846 occurred as at 31 December 2023 in between the contra accounts of Interest in Suspense (Leasing) – Covid 19 (GL No. – 230110127) account and the Interest receivable (Leasing) – Covid 19 (GL No. – 130120116) account of General Ledger was transferred to Debtors account (GL No: - 140105105).

GL accounts pertaining to contra Take necessary GL accounts are being actions to reconcile maintained at branch level and the Debtors’ control all contra GL accounts should be account without reconciled timely to ensure the further delay and to accuracy of recording ensure the accuracy of transactions. Hence, the finance balance appeared in division will take action to the respective account. inform branches in view of the As well should ensure the reconciliation of contra GL that contra accounts accounts timely to avoid the are off set with each recording of differences as other. debtors at the year-end financial reporting process.

Description	Balance as at 31/12/2023 (Rs.)
Interest in Suspense (Leasing) – Covid 19 (GL No. – 230110127)	281,577
Interest Receivable (Leasing) – Covid 19 (GL No. – 130120116)	6,180,424
<b>Difference</b>	<b>5,898,847</b>

Further, differences pertaining to contra-GL accounts have been recorded as debtors or creditors at year-end financial statements as nominal entries in trail balance only for the purpose of preparing financial statements and have not been posted to GL.

VI. The following difference was observed in between the Pawning interest receivable balance of the master file which was submitted by the IT department and the General Ledger balance as at 31 December 2023. Details are as follows.

<b>Description</b>	<b>Balance as at 31/12/2023 (Rs.)</b>
Interest Receivable as per Master File submitted by IT Department	4,104,398,724
Interest Receivable as per the General Ledger Balance (code starting with 126.,127.,...,129.,...,130....)	4,074,048,809
Difference	30,349,915

**VII. UNDP-RUEDA Guarantee Fund**

The Ruhunu Economic Development Agency (RUEDA) has granted Rs. 34,124,900 to the bank in 2009 as a credit guarantee fund. In year 2013 the bank had repaid Rs.23,121,157 and the remaining amount of Rs.11,003,743 has continued as a liability up to now.

As per the internal memorandum No. RDB/SP/FC/8/49 dated 18 May 2020 from the Regional General Manager-Southern Province to the Chief Financial Officer (CFO), they have requested to adjust the interest provision of the RUEDA amounting to Rs. 23,607,260 to the profit, since the RUEDA has already dissolved. However, it was observed that, action has not been taken by the Bank up to now to recognize the accrued interest amount to the profit & loss.

Branches are accepting partial interest payments for pawning advances while the account remains unsettled. The accounting entries are processed correctly in these cases. When the account is closed, the remaining interest is also recovered correctly. However, the pawning master list is not updated to reflect these partial payments. Actions are being taken to rectify this issue.

Take necessary actions to reconcile the unreconciled records without further delay and to ensure the accuracy of balance appeared in the financial statements.

A paper has been submitted to the ALCO to obtain recommendations and the issue will be rectified according to the decision given by the ALCO.

Take necessary actions to ensure the accuracy of balances appeared in respective accounts and the Bank's obligation to repay the respective balances.

### 1.5.3. Documentary Evidence not made available for Audit

Audit Issue	Management Comment	Recommendation
<p><b>I. PEACE Project - GL 220105150</b></p> <p>The GL balance of the PEACE project fund as at 31 December 2023 was Rs.44 million which is continued since 2015. That Rs. 44 million had been granted by Japan Bank for International Corporation (JBIC) to provide assistance to income generation activities of villagers and farmer organizations for an interest rate of 2 percent per year. . However, evidence was not available for the utilization of the grant to the expected purpose.</p>	<p>Out of 44 Mn, Rs. 7.5 Mn has already been utilized. The remaining Rs 36.5 Mn is to be utilized after launching a new loan scheme. The draft agreement sent by the irrigation department has been forwarded to the legal and compliance department for legal and compliance opinion. Accordingly, a new loan scheme will be implemented on or before 31.10.2024.</p>	<p>It is recommended to utilize the allocated funds for the required purposes.</p>

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

Audit Issue	Management Comment	Recommendation															
<p><b>I. Payment in Advance - Other (140105240)</b></p> <p>It was observed that the following advance payments were remained in the accounts over one year without clearing, despite continuous reporting through audit queries from 2018. However, no actions were taken to clear the long outstanding advance payment balances and remained unchanged until the date of audit of 18 March 2024. Details are given below.</p> <table border="1"> <thead> <tr> <th>Date</th> <th>Details of Payment</th> <th>Amount (Rs.)</th> </tr> </thead> <tbody> <tr> <td>i. 09/11/2016</td> <td>Ad Payment HR System 3 Phase Cost</td> <td>354,545</td> </tr> <tr> <td>ii. 09/02/2017</td> <td>Initial Payment for HRM System Phase 04</td> <td>434,545</td> </tr> <tr> <td>iii. 15/12/2017</td> <td>Ad pay 20%- HR System Phase 04</td> <td>434,545</td> </tr> <tr> <td>iv. 26/07/2018</td> <td>20% Ad Pay for HR System- Phase 03</td> <td>354,545</td> </tr> </tbody> </table>	Date	Details of Payment	Amount (Rs.)	i. 09/11/2016	Ad Payment HR System 3 Phase Cost	354,545	ii. 09/02/2017	Initial Payment for HRM System Phase 04	434,545	iii. 15/12/2017	Ad pay 20%- HR System Phase 04	434,545	iv. 26/07/2018	20% Ad Pay for HR System- Phase 03	354,545	<p>i, ii, iii, iv, v, vi. The Recruitment and Career Portal module in Phase 3 and the "Learning Management" module in Phase 4 have been completed. However, the "HR Business Intelligence and Reporting" module in Phase 3 and the "Employee Performance Management" module in Phase 4 are yet to be completed.</p> <p>As per the agreement with the software vendor, full payments are to be made only after the completion of all modules in each phase. Upon full payment of each module, the module's cost is transferred to the corresponding asset account from the advance payment account.</p> <p>vii, viii, ix, x. The final release of the "Inventory Control</p>	<p>Take necessary actions to complete the projects on time and clear the advance account accordingly without any delay.</p>
Date	Details of Payment	Amount (Rs.)															
i. 09/11/2016	Ad Payment HR System 3 Phase Cost	354,545															
ii. 09/02/2017	Initial Payment for HRM System Phase 04	434,545															
iii. 15/12/2017	Ad pay 20%- HR System Phase 04	434,545															
iv. 26/07/2018	20% Ad Pay for HR System- Phase 03	354,545															

v.	17/07/2019	HR System – 20% SRS 4 <sup>th</sup> Phase	434,545
vi.	20/04/2020	HR System Installation Software Phase 3	354,545
vii.	01/12/2016	Ad.payment Inventory Control System Software	310,000
viii.	15/12/2017	Ad pay 20% - Inventory Control 02 <sup>nd</sup> Payment	310,000
ix.	15/12/2017	Ad pay 20% - Inventory Control 03 <sup>rd</sup> Payment	310,000
x.	30/12/2020	Inventory Control System- 04 <sup>th</sup> payment	310,000
xi.	09/06/2020	CBS CR Changes Advance 50%	1,175,498
xii.	02/07/2021	20% Advance on Agreement sign stage & 10% Advance on GAP Analysis & SRS Documentatio n	3,780,000
xiii.	22/12/2021	10% Advance on SMS Gateway Solution Payment	625,000
<b>Total</b>			<b>9,187,768</b>

System" was deployed to the production system on July 02, 2024. The system is now running under a 3-month warranty period. After the warranty period, the amounts in the advance payment account can be transferred to the corresponding asset account.

xi. CBS CR is completed and the total cost for the CR has been transferred to the "Computerization Expenses" on 20.08.2024.

xii. Phase 01 of the QR Project has been in live operation since December 2021. For Phase 02, the user department has yet to finalize UAT (User Acceptance Testing) confirmation for the deployed application. Once UAT is completed and receiving the job completion report, the advance payment will be removed, and total expenditure added to the asset account.

xiii. The SMS Gateway provided under this project is in live operation since January 2022. Currently, Bank's SMS alerts including CBS, D2D, QR, Just Pay and ATM SMS alerts are routed through the system. The two deliverable items, SMS banking and Multi Telco Facilities have not been delivered by the vendor. Once users verify the successful delivery of these features, the final payment will be processed. Both milestones are expected to be completed by 2024 year-end.

After completing the project and job completion report of the IT Department, the



advance payment will be removed and the total expenditure added to the asset account.

II. Following long outstanding Loans and Receivable balances were observed in the general ledger as at 31 December 2023.

Take necessary actions to recover the long outstanding receivable balances without further delay.

GL Code	Account Name	Balance as at 31.12.2023	Branch Names	Year
130 120 105	Interest Receivables Divineguma SE Loan	2,358,872	Head office	2013
A paper will be submitted to the ALCO to rectify the issue.				
130 125 130	Interest Receivables Gold Loan - Commercial	604	Dikwella, Mihinthale	2017
Actions are being taken to rectify these issues before 31.12.2024				
230 165 270	Interest Receivable O/A Leasing overdue	308,877	Anuradhapura, Hingurakgoda, Kaduruwela	2016
116 100 100	Regional Bank Loans	3,186,813	Warakapola, Senkadagala, Wilgamuwa, Uwa, Alawwa, Ibbagamuwa, Mihinthale, Anuradhapura, Thambuththegama, Galnewa, Thalawa, North central	2019
116 100 105	Staff Festival Advance	12,000	Western	2016
116 100 110	Regional Bank Leases	1,456,584	Weligama, Beliat, Kamburupitiya, Mathara City, Dikwella, North Western, Mihinthale, Anuradhapura, Thalawa	2019
122 100 100	Leases Past Due	2,679,542	Thambuththegama, Kahatagasdigiliya, Galnewa, Madawachchiya, Polonnaruwa, Medirigiriya, Hingurakgoda,	2019

Gonapathirawa,  
Galamuna,  
Anuradhapura  
new Town,  
Kaduruwela

Total 10,003,292

- III. According to the Section 7 of the Circular No: SEC/2022/E/03 issued on 23 December 2022 by Commissioner General of Inland Revenue relevant to the deduction of withholding tax (WHT), every withholding agent who has deducted the WHT is required to issue a certificate of WHT within 30 days after the end of the month that WHT was deducted. Therefore, bank shall collect the WHT certificates relevant to the WHT on interest deducted by other financial institutions. However, WHT certificates relevant to the WHT receivable balance of Rs.234,542,876 included under receivable (AC No: 140105155) of Note No:28 to the Financial Statements were not available.
- Respective financial institutions have not been sent the WHT deductions certificates, once the WHT is deducted from the respective investment made by the bank for 2023. However, actions are being taken to send letters to respective financial institutions for collecting the WHT certificates.
- Take necessary actions to collect the WHT certificates without further delay.

## 1.6.2 Payables

### Audit Issue

- I. Following General Ledger (GL) account balances were carried forward as a liability over a period of time without any transaction.

Descripti on	Amount (Rs.)	Last Transactio n Date	Branc h
23010023 0- Machined grant for B onion Stores	1,857,543	01.02.2018	HO(10 00)
23010025 5- Ranaviru Divinagu ma Revolving Fund	213,772,526	27.03.2019	HO(10 00)
23010036 5-NLB and DLB	686,700		

### Management Comment

Actions will be taken to rectify the before 31.12.2024.

A new loan scheme will be commenced by utilizing the funds after discussing with the Ranaviru Seva Authority since they are the party who initiated this fund.

Actions are being taken to rectify this balance before 31.12.2024

### Recommendation

Take necessary actions to settle long outstanding payable balances without further delay and reconcile any differences.

loan protection Fund			
23016541	30,781,727	25.02.2021	HO(1000)
5-Compensation Payable-LDB			
<b>Total</b>	<b>247,098,496</b>		

Balances in this GL have been used for paying any commitments raised pertaining to the merger of LDB with RDB.

## II. GL 230165481-Margine Accounts Rupee Deposits (LDB)

The balance of Rs.15,259,234 was recorded in the above account as at 31 December 2023, which represents the amounts received from the LDB customers to set off their loans. However, no any set off has been carried out during this period against the received amounts from the LDB customers and no any action has been taken to clear the balances appeared in the relevant account. Details are given below.

Branch	Amount (Rs)	Last Transaction Date
Nugegoda-1350	13,995,000	16.07.2020
Hambantota-2380	268,960	06.10.2021
Kandy 2 <sup>nd</sup> -4350	19,274	17.07./2020
Wennappuwa-7360	772,000	17.07.2020
Kaduruwela-8210	204,000	06.09.2021
<b>Total</b>	<b>15,259,234</b>	

Actions are being taken to rectify this issue before 31.12.2024

Take necessary actions to set off/ settle long outstanding balances without further delay.

## 2. Financial Review

### 2.1. Financial Result

The operating result of the year under review amounted to a profit of Rs.1,183,421,122 and the corresponding profit in the preceding year amounted to Rs. 359,115,329. Therefore, an incremental amounting to Rs. 824,305,793 or 229 percent of the financial result was observed. The main reasons for the increase are the increase of interest income and fee and commission income during the year under review.

### 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
Fee and commission income	765.5	95	Increase of Reminder letter charges, QR commission, postage charges and sundry income.
Net trading gain (loss)	(337.25)	330	Adverse movements in US\$ exchange rate relevant to maintenance of net open position of US\$ 11 million.

### 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.

Ratio	Sector Ratios (Licensed Specialized Banks) Percentage	2023 Percentage	2022 Percentage
<b><u>Profitability Ratios</u></b>			
Net Profit Ratio (PAT)	2.97	1.81	3.73
Net Interest Margin	2.94	6.09	6.18
Net Interest Income on Interest Income	18.33	36.65	44.32
Non-Interest Income to Total Income	3.04	2.85	2.57
Interest Cost to Interest Income	81.67	63.35	55.68
Staff Cost to Operating Expenses	67.80	78.18	76.95
Return on Average Assets (ROA)	0.45	0.30	0.51
Return on Equity (ROE)	7.72	4.83	8.32
Earnings Per Share		1.54	2.45
<b><u>Asset Quality</u></b>			
- Impaired Loans (Stage 3) Ratio (%) (Net of Stage 3 impairment) (From 2022 onwards)	10.59	8.80	6.53
- Impairment (Stage 3) to Stage 3 Loans Ratio (%) (From 2022 onwards)	34.01	36.03	31.95
<b><u>Capital Adequacy Ratios</u></b>			
	<b>Minimum Requirement</b>		
Common Equity Tier I Capital Ratio	7	10.09	8.29
Total Tier I Capital Ratio	8.5	10.09	8.29

Total Capital Ratio	12.5	17.28	15.22
<b><u>Liquidity Ratios</u></b>			
Statutory Liquidity Assets Ratio	20	38.73	27.83

### 3. Operational Review

#### 3.1. Management Inefficiencies

<b>Audit Issue</b>				<b>Management Comment</b>	<b>Recommendation</b>
<p>I. Thirty Seven (37) numbers of loans with aggregated granted amount of Rs.17.9 million, which were granted in 2023 had been rescheduled in the same year. Details were given below.</p>				<p>Initially, inspected the customer and then decided to provide rescheduled facilities based on the request and the repayment capacity of the borrowers.</p>	<p>Take necessary actions to properly evaluate the customers before granting loans.</p>
Asset class	Number of Accounts	Sum of Principal Granted (Rs.)	Sum of Outstanding Amount (Rs.)		
A0	16	10,925,000	10,127,572		
A1	17	3,230,000	2,881,341		
B0	4	3,750,000	3,688,866		
<b>Grand Total</b>	<b>37</b>	<b>17,905,000</b>	<b>16,697,779</b>		
<p>II. Seventeen Thousand Three Hundred &amp; Three (17,303) numbers of loans with aggregated granted amount of Rs.8,687 million which were granted in 2023 had been restructured in the same year of 2023. Details were as follows.</p>				<p>85% of the accounts are mainly related to interest rate changes in respect of refinance loan schemes and where remaining 15% have been identified as restructured loans for reasons such as changes in loan tenure, maturity date changes and actual variation of cash flows thereby on business purpose and customers request and those loans are closely monitored to recover loan regularly.</p>	<p>Take necessary actions to properly evaluate the customers before granting loans.</p>
Asset class	Number of Accounts	Sum of Principal Granted (Rs.)	Sum of Outstanding Amount (Rs.)		
A0	17,144	8,627,761,339	7,618,134,957		
A1	129	44,445,000	41,930,472		
B0	25	12,335,000	11,705,599		
C0	5	2,875,000	2,862,165		
<b>Grand Total</b>	<b>17,303</b>	<b>8,687,416,339</b>	<b>7,674,633,193</b>		

**III. GL-105100110-PB3 (014100180005589)**

The balance of Rs.1,998,583 of the above current account has continued since 24 December 2020, without having any transaction or utilizing for investment.

Actions will be taken to close the current account subject to ALCO and BOD approvals.

Take necessary actions to strengthen the internal controls relating to maintain current accounts.

IV. Adequate securities should be obtained by the bank when granting loans and advances to customers to minimize the risk to the bank in the event of a default. However, loans aggregating to Rs.2,426.38 Mn had been outstanding to the top 25 NPL customers as at 30 September 2023 and out of that only Rs.1,344.25 Mn was secured against the immovable property and it represents 55 Percent of the total outstanding. Therefore, it was observed that the recoverability of Rs. 1,082.13 Mn is doubtful to the bank due to lack of strengthen of the available securities.

The 45% of Unsecured loans mainly consist of the loans granted to the Sri Lanka Handicraft Board, Fishery Society, pledge loans and loans granted by the LDB. These loans have been granted by considering micro and macro environmental factors.

It is recommended to ensure that adequate securities are available to recover the loan in a default situation.

However, the Bank has taken the below actions to recover these loans as of now.

**Sri Lanka Handicraft Board** - according to the decision of the Board of Directors of the bank, it is not suitable to take legal actions at the very first, against government institutions by the bank as another government institute. Therefore, requested to submit a proposal for payment of the loan from the Management of the Sri Lanka Handicraft Board after discussed with them. Further, if a proposal is not received from the borrower, then the bank will follow legal actions to recover the loan.

**Eksath Deewara Udana Thrift & Credit Co-Op Society** - The Legal Department of the Bank has already started to take legal action against each

borrower of the society based on the available personal guarantees of the loan.

Further, there were pledge loans, and currently, no paddy stocks are available in the warehouses due to the fraudulent activities of the borrowers. Hence, the bank has filed criminal cases against the borrowers, meanwhile providing rescheduled facilities to them to recover the loans.

Further, Branches have been informed of the importance of the collaterals to recover the loan when default and to obtain adequate securities at the time of loan approval.

<p>V. It was observed that 5,169 numbers of fixed deposits aggregating to Rs.5,563,554 were kept for several years (since 2007) by the bank without paying interest or renewing.</p>	<p>Several accounts have been corrected. The actions have been taken to rectify the remaining before 31.12.2024</p>	<p>Take necessary actions to strengthen the internal controls relating to fixed deposits.</p>
<p>VI. <b>GL-210100370 - Mahaweli Loan (Former LDB)</b> The Bank has acquired an amount of Rs.50,000,000 from Lankaputhra Development Bank (LDB) as the balance of the Mahaweli loan scheme as at 30 August 2019. This amount has continued up to 31 December 2023 and it was observed that no any loans have been granted to customers from this fund up to that date.</p>	<p>A special loan scheme called Mahaveli Surakum has been introduced to utilize this fund.</p>	<p>Take necessary actions to utilize the fund for the optimal benefit of the Bank and the end users.</p>

### 3.2. Operational Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>Following common deficiencies were observed during the sample of loan files checked in 05 branches.</p> <ul style="list-style-type: none"> <li>• Non availability of inspection</li> </ul>	<p>Circular instructions have already been issued by the Credit Department to sort out these kinds of issues related</p>	<p>Take necessary actions to disburse and recover loans in accordance with the conditions of the</p>

- report after the loan disbursement.
- Loan application had not been signed by the Manager.
  - Lack of documents or incomplete documents such as Form 83 and 84 for guarantor, Risk management Report, Proof for residence, certificate of non-vesting, standing order, Proof documents to verify income etc.
- to loan files. Document-related issues are sorted out via the Loan Originated System (LOS). LOS is being functioned and will be expanded island-wide gradually. Further, high-volume loans are disbursed through the Credit Administration Department and therefore these kinds of issues will be minimized.
- approving authority, issued circulars and guidelines. As well it is required to obtain all the necessary documents and ensuring the completeness and accuracy of such documentations before the loan disbursements.

### 3.3. Transactions of Contentious Nature

#### Audit Issue

##### I. The Post of General Manager

According to the Section 26 of Pradeshiya Sanwardhana Banking Act, No.41 of 2008, the Board shall appoint the General Manager/CEO of the Bank. However, as per the correspondences of last five years period, after 2019, the board has failed to appoint a General Manager/CEO on permanent basis who is able to hold the office at least continuous 3 years period as per the section 26(4) of the Pradeshiya Sanwardhana Bank Act. The details were given in *Annexure II*. It was observed that, the vacant position of the post of General manager on permanent basis in long term will be affected for the day-to-day banking operations.

#### Management Comment

Applications have been called and interviews are to be conducted. However, the recruitment process is pending due to a Human Rights Commission matter.

#### Recommendation

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

### 3.4. Information System

#### Audit Issue

##### I. Significant delays in the user deactivation process

Significant delays in the user deactivation process for the Intellect Core Banking System was observed. Details were given in *Annexure III*

#### Management Comment

It appears that the 'Deactivated Date' column in the given list had been used for comparison. An account is also flagged as deactivated when the password is entered incorrectly multiple times. Therefore, the column that should be used for this comparison is the 'Date Deleted' in the given list.

#### Recommendation

Take necessary actions to avoid delays in user deactivation process.



## II. VISA debit card implementation project

Lack of proper strategic review in procurement decisions as evidenced by not conducting cost benefit analysis, feasibility studies, and risk assessments prior to implementing such decisions were observed.

Eg - No evidence on comprehensive evaluations including the total cost benefit analysis, feasibility study and the risk assessment on the implementation of cited project, even though the bank has initiated the project at present. In the meantime, the bank has purchased JCB Debit Cards while moving to VISA debit card without proper evaluation.

The Board Paper which included a cost-benefit analysis, feasibility study, and risk assessment at the implementation is attached.

The board paper was approved after the project implementation.

Therefore take necessary actions to adhere with the cited directions of Procurement Guideline 2006 and strengthen the internal control systems of the Bank to utilize funds of the bank effectively and efficiently and avoid the re-occurrence of such issues.

### *Annexure I.*

<b>Product</b>	<b>Sum of Capital Outstanding</b>	<b>Sum of Interest Outstanding</b>	<b>Sum of Amortized Cost</b>
Liya Isura	30,625,756	12,314	30,638,070
Loan Against Deposit	13,410,935,326	643,361,609	14,054,296,935
Pawning	41,292,788,532	3,988,314,125	45,281,102,657
Refinance	39,604,769,777	362,268,559	39,967,038,336
Staff	5,856,582,013	7,754,546	5,864,336,559
Staff Pawning	282,666,176	17,722,378	300,388,553
Term Loan - Agriculture	18,080,453,066	227,118,880	18,307,571,946
Term Loan - Commercial	23,147,545,282	277,600,761	23,425,146,043
Term Loan - Housing	43,893,563,068	338,825,944	44,232,389,013
Term Loan - Industrial	14,544,786,067	147,208,988	14,691,995,055
Term Loan - Other	6,651,644,716	57,833,886	6,709,478,602
Leasing	856,508,495	-	856,508,495
<b>Sub Total as per Master File</b>	<b>207,652,868,273</b>	<b>6,068,021,988</b>	<b>213,720,890,262</b>
Regional Bank Pawning	18,788,200	-	18,788,200
Leasing manual -LDB	49,010,790		49,010,790
SME	118,165,218	-	118,165,218
MANUAL	3,186,814	-	3,186,814
Staff Festival Advance	12,000		12,000
<b>Manual Loans Total</b>	<b>189,163,022</b>	<b>0.00</b>	<b>189,163,022</b>
Interest Receivable Covid 19			1,339,812,067

Total Loans as at 31 December 2023 as per Master File and Manuals	<b>215,249,865,351</b>
Loans As per Financial Statements as at 31 December 2023- Note 21	<b>215,296,266,722</b>

**Difference** **-46,401,371**

*Annexure II*

Name	Basis	Date of Appointment	Date of Resignation	Period of Service
Mr.T.A.Ariyapala	Permanent	2.10.2014	30.01.2019	4 years 3months
	Acting	01.02.2019	31.10.2019	9 months
Mr.T.Kuhan	Permanent	01.11.2019	01.11.2020	1year
Mrs. R.M.D.K.Rathnayaka	Acting	02.11.2020	31.01.2022	1 years 3 months
Mr. A.H.M.M.B.Jayasinghe	Permanent	01.02.2022	04.09.2022	7 months
Mr.P.S.Edirisooriya	Acting	05.09.2022	28.02.2023	5 Months
Mr.A.H.M.M.B Jayasinghe (Reported back and early retired from his position)	Permanent	01.03.2023	19.03.2023	18 Days
Mr. P. Sumeda Edirisuriya	Acting	20.03.2023	05.06.2024	1 year & 2 Months
Mr. E.A.D. Janitha Priyashantha	Acting	06.06.2024	To date	

*Annexure III*

User Name	User ID	Use Disable Flag	User Disable Date	Terminated Date HR	Delay Days
M I M S Fareeda	010818	T	10/10/2023	10/9/2023	1
T M Kulasena	010040	S	6/26/2018	4/28/2017	423
S N W M Jayasinghe	010222	T	10/17/2018	4/28/2017	536
S N W M Jayasinghe	010222	T	2/5/2020	4/28/2017	1012
V P C Priyadarshani	011904	T	2/6/2023	1/30/2023	6
T M Kulasena	010040	S	6/25/2018	4/28/2017	422