

Bank of Ceylon and its subsidiaries - 2022

1. Financial Statements

1.1 Opinion

The audit of the Financial Statements of the Bank of Ceylon (the “Bank”) and the Consolidated Financial Statements of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. The Bank has been exempted from the provisions of Part II of the Finance Act, No. 38 of 1971 by an Order of then Minister of Finance published in the Government Gazette No. 715 of 14 May 1992 by virtue of powers vested in him by Sections 5(1) of the said Finance Act. My comments and observations which I consider should be report to Parliament appears in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2022, and of their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank’s and the Group’s financial reporting process.

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

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

1.5 Audit Observation on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of Financial Statements.

Audit Issue	Management Comment	Recommendation
<p>(i) The Financial Statements of the Bank is prepared based on the financial information derived from core banking systems. Subsequently the entries relating to the IFRS adjustments are passed and that information is maintained in spreadsheets. This might lead to loss or manipulation of data. Therefore, the bank needs to evaluate the necessity of fully automated system solution to prepare the full set of financial statements to ensure the data accuracy.</p>	<p>Automating the Financial Reporting is in process and 2 out of the 3 phases have been signed off presently.</p>	<p>It is recommended to automate the financial statement preparation process.</p>
<p>(ii) The portfolio balancing process between Impairment Master Summary and Expected Credit Loss (ECL) Summary in impairment calculation should be done with proper mechanism. Further, there is no proper review process on portfolio balancing for financial statement preparation.</p>	<p>When reporting the loan figure is presented in Financial Statements at amortized cost. (Capital plus interest receivable and due). The verification of ICBS loan balances are carried out by the Ledger Balancing Unit on daily basis. The steps have been taken to reconcile the reported differences and further</p>	<p>Need to implement proper mechanism of portfolio balancing.</p>

improvements will be carried out on the same too.

(iii) Even though the bank had purchased software to compute the collective impairment, the Exposure at Default (EAD) and ECL adjustments are still performing manually.

The branch wise provision calculation centrally started after the sign off of the phase 01 (impairment calculation). The required modification to the system is been under development to get the EAD and ECL through the system on branch wise. It is recommended to perform the ECL calculations through the system without any manual intervention.

(iv) Results of back testing procedures highlighted that the Bank has to strengthen the independent review over forecasting of future cash flows.

Comment is noted

Need to use back testing procedures to strengthen the independent review over forecasting of future cash flows.

1.6 Accounts Receivable and Payable

1.6.1 Receivable

Audit Issue

Management Comment

Recommendation

Following long outstanding Interest Subsidiary Claiming accounts were observed as at 31 December 2022 without clearing.

The claims relating to the interest reimbursement amount due for the senior citizen deposits have been claimed on due dates and a reminder for the reimbursement due has also been made through a letter to Ministry on the month of September 2023 too.

Description of GL Account	General (GL) Code	Interest Outstanding as at 31.12.2022 (Rs'Mn)	Age Analysis of Interest Receivables (Rs. In Mn)			
			Below 03 months	Between 03 - 06 months	Between 06 - 12 months	More than 01 year
For Deposit						
Incentive Receivable for Special Deposit Accounts	Interest for Deposit 11310 600	172.34	65.91	86.57	19.86	-

Interest subsidy

Incentive Reimbursement Receivable Senior Citizen	11310 566	23,108.98	2,642.57	4,011.27	8,395.13	8,060.01
For Loans						
Enterprises Sri Lanka	5150 1021	502.63	161.52	90.24	133.50	117.37
Diyawara Diriya	5150 1018	7.24	4.22	3.01	-	-
Commercial Scale Dairy Development Loan Scheme	51501 018	20.54	1.53	1.67	4.31	13.02
Interest Free Education Loan	515010 18	427.59	193.64	178.78	55.17	-
STaRR Project	51501 018	1.44	0.51	0.44	0.49	-
Saubagya Working Capital Phase III	51501 018	66.09	66.09	-	-	-
NCRCs	515010 06	95.98	16.85	17.92	11.60	49.62

claims already submitted to the relevant authorities. Payment will be made during the month of December on each year.

1.6.2 Payables

Audit Issue

The following accounts categorized under other liabilities are having outstanding balances from considerable period of time without taking satisfactory actions to clear the long outstanding balances. The details of such balances are given below.

Description of GL Account	GL Code	Amount (Rs. In Mn)	Age Analysis (Rs. In Mn)			
			Less than year	From 1-2 year	From 2-5 years	More than 5 years
Proceeds of Charge Vouchers sent on Collection	22310082	193.88	92.84	0.60	4.08	96.36
Reserve on Forged Cheques and Frauds	22310122	2,266.07	78.50	416.10	1,258.52	512.06
Total		2,459.95				

Management Comment

- Proceeds of Charge Vouchers sent on Collection More than 5 years includes**
- Funds hold on fraudulent transactions: Legal Actions ongoing: IPG – Rs. 63.83 Mn BOC Male - Rs. 28.59 Mn
- Suspicious card payments attended at BOC merchant outlets- Rs 3.95 Mn

Recommendation

It is recommended to take necessary actions to clear long outstanding balances of other liability accounts.

Awaiting lapse of 6 years' period to take suitable action.

5-2 years and 2-1 years includes:

Suspicious card payments attended at BOC merchant outlets

Awaiting lapse of 6 years of period to take suitable action.

Less than 1 year includes:

Funds remain hold for 120 days due to risk concerns such as undercharged, late settlements IPG Merchant test transactions etc.. Funds will be released after 120 days if not disputed by the cardholder.

The Balance outstanding (less than 1 year) as at 31st Oct 2023 is Rs. 48.33 Mn

Reserve on Forged Cheque and Frauds

During the year 2022, Rs. 95.16 Mn has been reversed from provision provided due to conduct several meetings with Branches and Head Office Departments by Accounts Department.

We have continued the process for the year 2023 and have cleared Rs. 678.44 Mn as at 10.11.2023.

1.6.3 Advances

Audit Issue	Management Comment	Recommendation
<p>(i) Total outstanding balance of Loans & Advances belonging to Government of Sri Lanka and State Owned Enterprises (SOEs) has been increased significantly in last five years period from 2018 to 2022. Increasing trend of outstanding balance of SOEs, from total Loan and Advances balance indicated 36.53 percent to 45.67 percent during 2019 to 2022.</p> <p>Off balance sheet values (Letter of Credits, Acceptance and Bank Guarantees) belonging to State Owned Enterprises (SOEs) as at 31 December 2022 was Rs.197,087 Mn and the total exposure of State-Owned Enterprises (SOEs) including the aforesaid off-balance sheet value was recorded as Rs.2,385,602 Mn and it represents 62.72 per cent of total assets of the bank.</p>	<p>Outstanding balance of SOEs, from total Loan and Advances balance and total assets value of the Bank as at 30.09.2023 have been decreased significantly with the recent development of structural changes of Loans to the SOEs. It stood at 14% (App) and 7% (App) respectively as at 30.09.2023.</p> <p>Off balance sheet values (Letter of Credits, Acceptance and Bank Guarantees) belonging to State Owned Enterprises (SOEs) as at 30.09.2023 was amounting to Rs 107,367.17 Mn and including the aforesaid off-balance sheet value the total exposure of State-Owned Enterprises (SOEs) was recorded as Rs 425,121.79 Mn and it represents 10 per cent of total assets of the bank.</p> <p>Increase in exposure of some of SOEs with BOC was also due to non-financing facilities by the People's Bank (for CPC, Coal & Pharma) due to various factors encountered by them (Liquidity in Forex and Rupee, Guaranteed forex commitment by CBSL issued to BOC for procurement of Fuel etc) during year 2021 and 2022, Further other SOE exposures were not enhanced /increased even though approved facilities were availed (RDA/NWSDB) during that period. However, SOEs such as CPC, CEB, Lanka Coal are being</p>	<p>It is recommended to closely monitor the recoveries of Government of Sri Lanka and State Owned Enterprises (SOEs) since both forms same risk category of "Government".</p>

financed based on their cash flows and these entities currently transact with bank on rich cash flow basis after the pricing adjustments in line with their actual cost.

- (ii) The aggregated total outstanding balances of top 10 State Owned Enterprises (including Government of Sri Lanka) as at 31 December 2022 has recorded as Rs.1, 026,995 Mn which include capital outstanding of Rs.1, 003,725 Mn and interest outstanding of Rs.23, 271 Mn. This represented 96.31 percent from total outstanding balance of loans & advances belonging to the State-Owned Enterprises (including Government of Sri Lanka). Therefore, major dependency was on top 10 customers was observed as follows;

Institute	Outstanding Balance as at 31/12/2022 Rs. Mn	Security	Security Value
Ceylon Petroleum Corporation (CPC)	575,958	Treasury Indemnity 100% Dollar margin in BFCA Account	USD 700 Mn USD 200 Mn USD 750 Mn
Road Development Authority (RDA)	143,350	Treasury Guarantee	Rs. 149,164 Mn
Government of Sri Lanka	115,502	Loan Agreement	
Sri Lankan Airlines Limited	71,473	Letter of Comfort Mortgage Over Shares of	Rs. 49,190 Mn Rs. 67,499 Mn

The total outstanding balances of top 10 State Owned Enterprises (SOEs) as at 30.09.2023 have recorded as Rs. 325, 291 Mn which include capital outstanding of Rs. 307,105 Mn and interest outstanding of Rs. 18,186 Mn. This represented 97% percent from total outstanding balance of loans & advances belonging to the State-Owned Enterprises (SOEs).

SOEs such as CPC, CEB, Lanka Coal are being financed based on their cash flows.

However, SOEs were financed in view of achieving the expected economic development of the country through priority projects. However, exposures to RDA/NWS&DB were not enhanced /increased even though approved facilities were availed during 2021-2022 period.

Facilities granted to Paddy Marketing Board are being serviced without arrears.

It is recommended to follow up recoveries and maintain appropriate limits to reduce credit risk.

		Sri Lankan Catering limited	
National Water Supply & Drainage Board (NWSDB) Department Pensions	51,363	Savings Accounts and Fixed Deposits	Rs. 166,822 Mn
Ceylon Electricity Board (CEB)	17,241	Letter of Comfort	Rs.24,000 Mn
State Pharmace uticals Corporati on of Sri Lanka	12,284	Treasury Guarantee Assignme nt over Leased Vehicles	Rs.5,000 Mn
		Letter of Comfort with undertaki ng of budgetar y provision s issued by General Treasury Clean & BOE/Shipp ing Documents	Rs. 5,876 Mn
Sri Lanka Telecom Paddy Marketing Board	11,651	Treasury Undertaking Treasury Guarantee	Rs. 500,000 Mn
1	1,026,995		

(iii) The aggregated outstanding balance of top 10 Non-Performing customers was Rs. 33,783.63 Mn as at 31 December 2022 including the capital of Rs.27,781.85 Mn and interest of Rs.6,001.7 Mn. It represents 28.50 percent of total non-performing loans and advances of the Bank as at 31 December 2022 while indicating an increase of 57.5 percent comparing to previous year.

The companies of K D Ebert & Sons Holdings (Pvt) Ltd, Anudan Holdings (Pvt) Ltd, Ruhunu Development Contractors & Engineering (Pvt) Ltd, Sintesi Limited, W M Mendis & Company Ltd, Srei Equipment Finance Ltd and Almar Trading Co. (Pvt) Ltd are continuously ranked in the top 10 NPA customers list of the Bank from years 2018,2019,2020,2021 and 2022 respectively. Moreover, the companies of Laugfs Gas PLC and Deshika Embroidery Solution (Pvt) Ltd were newly listed in the top 10 NPA customers of the Bank as at 31 December 2022.

No.	Name of the Customer	Total Loan Balance as at 31/12/2022 (Rs.Mn)
01.	Srei Equipment Finance Ltd	6,079.78
02.	Sintesi Limited	4,222.82
03.	K D Ebert & Sons Holdings (Pvt) Ltd	3,919.34
04.	Dholiya Investment (Pvt) Ltd	3,505.80
05.	W M Mendis & Company Ltd	3,406.34
06.	M/S Laugfs Gas PLC	3,172.84
07.	Almar Trading Co. (Pvt) Ltd	2,667.30
08.	Anudan Holdings (Pvt) Ltd	2,614.04
09.	M/S Deshika Embroidery Solution (Pvt) Ltd	2,338.63
10.	Ruhunu Development Contractors & Engineering (Pvt) Ltd	1,856.74
	Total	33,783.63

Comments noted.

Srei Equipment Finance LTD
The company under Corporate Insolvency Resolution Process (CIRP)

W M Mendis & Company LTD
We have rescheduled the total portfolio. After rescheduling they have started to send cash flow and bank is in the process of recovering the facilities.

Laugfs Gas PLC
However, in 2023 Term Loan outstanding of Rs. 391.69 Mn and loan interest of Rs. 269.3 Mn was recovered as the company has routed Rs. 661.0Mn received from divestment of Bangladesh business and further company settled a BLR O/S of Rs. 175.15 Mn and intend to dispose another property for part settlement of NPA.

Dholiyadoo Investment (Pvt) Ltd.
State Bank Of India (SBI) initiated the sale of Mortgaged property at 14.0Mn and the sales proceeds will be distributed among the lenders on pro rata basis. BOC has in-principally agreed with this request after discussing with SBI(State of Bank of India). BML (Bank of Maldives Limited) also agreed the same and issued official letter to the borrower. BOC has obtained the Board approval for a full and final settlement with a write off as this facility is in NPA category since 2012.

M/S Deshika Embroidery Solution (PVT) LTD
The recovery action is being

It is recommended to follow up recoveries and ensure satisfactory customer credit evaluations before granting loans in future.

implemented.

K D Ebert & Sons Holdings (Pvt) Ltd (KDESH)

Up to now company has routed more than Rs. 2.2 Bn cash flows to bank. In addition to the above bank decided assist to the company to complete the projects in view of reducing the risk of claiming the bonds.

Anudan Holdings (Pvt) Ltd

Final Notices were served on 26.07.2023.

Ruhunu Development Contractors & Engineering (RDCE)

Bank considered RDCE for revival process and rescheduled existing facilities and grant fresh working capital facilities to improve the cash flows. According to that bank has granted Rs. 0.4 Bn direct facilities and other indirect facilities of Rs. 2,000 Mn During the revival period from 2021, up to now company has routed more than Rs. 4.8 Bn cash flows to bank. In addition to the above bank decided assists the company to complete the projects in view of reducing the risk of claiming the bonds.

Sintesi Limited

Legal Cases have been filed against the Company and Directors for the recovery of unsecured facilities.

Almar Trading Co. (Pvt) Ltd

Legal cases to be filed against Company and Directors. Letters Demand ware served.

- (iv) The aggregated outstanding balance of top 10 Non-Performing customers to whom loans were granted during 2022 and transferred to the NPL category in same year (Excluding rescheduled facilities) was Rs.1,555.66 Mn as at 31 December 2022. This represents 73.5 percent of total outstanding balance of loans granted during 2022 and transferred to NPL category (excluding rescheduled facilities).

As at 31 December 2022			
Name of the Customers	No. of Loans	Total Amount Disbursed During the year 2022 (Rs.Mn)	Total Amount Outstanding as at 31.12.2022 (Rs.Mn)
Trend Setters (Pvt) Ltd	5	951.12	979.79
Nawaloka Piling (Pvt) Ltd	10	131.50	138.58
MG Consultants (Pvt) Ltd	4	121.20	137.68
Ackzorne Lanka (Pvt) Ltd	12	83.52	95.53
FIBC Lanka (Pvt) Ltd	6	59.71	63.46
Mr. P K Jayathilake	1	35.00	39.51
Wayamba Lanka	1	27.77	30.84
Coco (Pvt) Ltd			
AMSK Constructions (Pvt) Ltd	2	22.96	27.12
Mr. B A Jayasekera	1	20.50	21.93
Mr. M F Niroshan Fernando	1	19.78	21.22
Total		1,473.06	1,555.66

Trend Setters Pvt Ltd

The bank has already served 06 Letter of Demand for the facilities and 02 final notices for properties mortgaged to the bank.

Nawaloka Piling (Pvt) Ltd

These facilities are sub loans under already approved limit to Nawaloka Piling (Pvt) Ltd during the year 2019. Company currently undergo server cash flow issues due to non-availability of sufficient projects since covid period and thereafter.

MG Consultants (Pvt) Ltd

Facilities were transferred to NPA due to delay in receiving payments from RDA and facilities will be settled upon receipt of payments from RDA.

Ackzorne Lanka (Pvt) Ltd

The entire facilities granted to the group has been transferred to the Business Revival and Rehabilitation unit, and at present the business of the company is experiencing a positive cash flow which is being credited to our current account and arrangements have been taken to recover the NPA facilities.

FIBC Lanka (Pvt)Ltd

The Loans granted during 2022 transferred to NPL section same year due to past fuel & Economic crisis of country occurred during year 2022 as a result of that, the company faced

It is recommended to ensure that satisfactory customer evaluations have been performed by the bank before granting loans to particular customers.

several difficulties.

Mr P K Jayathilake

Branch sent final Notice on 21.09.2023.

Wayamba Lanka Coco Pvt Ltd

The Loan was rescheduled on 18.09.2023 through the Business Revival & Rehabilitation Unit.

AMSK Constructions (Pvt)Ltd

As agreed by the company these loans will be settled within this year if funds will be received as agreed by RDA.

Mr. B A Jayasekera

Facilities have been settled in full as at 23.08.2023.

Mr. M F Niroshan Fernando

The monthly loan installment increased by nearly Rs 0.15 Mn and he unable to bear such a big installment in this bad economic condition. But customer continuously deposit his initially agreed loan installment up to now.

- (v) When analyzing the Non-Performing ratio calculation on loans granted for various sectors of the Bank during the past four years period, it was observed that non-performing ratios record in the sectors of Manufacturing, Tourism, Agriculture, Forestry & Fishing, Construction, Infrastructure Development, Wholesale & Retail Trade, Financial Services and Health Care, Social Services & Support Services have gradually increased during the past four years period.

- (vi) Loans and Advances Granted to Politically Exposed Persons' (PEPs)
As per the information available in Management

Bank has already considered the tourism and construction industries as risk elevated industry and captured for impairment under stage 2 and 3. Also relevant ratios applied considering Economic factor adjustments as per the bank's current model of Expected credit losses.

Need to be closely monitor the recoveries of non-performing loans.

Information System (MIS) of the Bank, Total Non – Performing Loans granted to the Politically Exposed Persons as at 30 April 2023 was Rs.10,871 Mn which represented 6.16 per cents of Total Non – Performing Credit facilities. (Excluding Pawning, Credit cards, Staff loans, potential risk).The observations on selected sample are as follows;

a. Loan No. 88960012

The Bank has granted a loan facility amounted to Rs.5 Mn at interest rate of 29 per cent p.a for the 60 months period under the aforesaid loan number for the purpose of further renovation of the house. The facility was granted on 19 May 2022 and two personal guarantors were considered for the security. Subsequently the facility was transferred to non performing category on 19 December 2022, which is after 07 months from the granted date. The outstanding balance as at 12 May 2023 was Rs.5.92 Mn including capital of Rs.4.89 Mn and interest of Rs. 1.03 Mn.

The customer is not a long term customer of the bank and a savings account belongs to the customer was opened one month before the loan granted date which was on 20 April 2022. Moreover, the Credit Information Bureau of Sri Lanka (CRIB) position of the customer stipulated as adverse as per the memorandum to the Chief Manager – Maharagama. Although the “Relationships with PEPs should always be considered as relationships posing High Risk” as per the section 8.3 of Office Instructions Circular no: 12/2021, loan considered for fresh customer based on two personal guarantors was not sufficient to secure the loan since it creates high credit risk at the initial loan granting point . At present, customer’s saving account balance is zero and bank has sent 03 reminding letters to customer. However, customer was not made any payments as promised up to the date of review on 25 October 2023.

b. Loan No. 80420428

The Bank has granted a loan facility amounted to Rs. 35 Mn at interest rate of 15 per cent p.a for 120 months period under the aforesaid loan number for the purpose of commercial construction of proposed

According to the declaration given by Mr. Nimalaweera on 01.04.2022, it is mentioned that he is an advisor to the President of Sri Lanka and additional secretary to the President. Therefore, the bank obtained PEP approval from the Assistant General Manager (Western Province South). Need to follow up the recoveries.

- Mr. Nimalaweera did not appear as a defaulter in CRIB Report No. W-0077154135/2022 taken on 26.04.2022 and CRIB Report No. W-0077154124/2022 taken on 26.04.2022
- We have granted this loan based on his profile and financial strength.

Reminding letters to the customer were sent on 12.12.2022 and the customer visited the branch on 19.12.2022. Final Reminding letter sent before start the legal action on 14.09.2023 but letters return to the bank.

Approval obtained for reschedule to mitigate the higher risk by the Branch from Deputy General Manager (DGM) Recovery Province on Need to follow up the recoveries.

shopping complex. The facility was granted on 14 February 2017 and land was considered for the security. Subsequently the facility was transferred to non performing category on 14 May 2019 and outstanding balance as at 15 May 2023 was Rs.51.06 Mn including capital of Rs.29.51 Mn and interest of Rs.21.55 Mn.

The “Relationships with PEPs should always be considered as relationships posing High Risk” as per the section 8.3 of Office Instructions Circular (OIC) no: 12/2021. However, the above loan has been granted 1 per cent below the listed rate while maintaining a current account by the customer at People’s Bank for doing all the business transactions through that account. Further a new credit memorandum has been approved in order to reschedule the existing loan. Therefore it was observed that the customer has not been treated as a high risk customer as directed through the OIC No. 12/2021 and it reveals that the gravity of the situation is due to political background of the customer.

c. Loan No. 78010386

The Bank has granted a loan facility amounted to Rs. 15 Mn at interest rate of 13 per cent p.a for 72 months period under the aforesaid loan number for the purpose of improve the existing business and payoff the lease facility obtained from other financial institutions. The facility was granted on 23 September 2015 and land was considered for the security. Subsequently the facility was transferred to non performing category on 23 September 2015. The outstanding balance as at 15 May 2023 was Rs.9.68 Mn including capital of Rs.5.94 Mn and interest of Rs. 3.74 Mn.

As per the annexure II stipulated in Office Instruction Circular No 28/2015, the maximum granted amount needs to be restricted to 75 per cent of the Bank’s valuation of residential immovable property offered as security for the facilities. However, it was observed that the above loan represents 88.24 per cent from its forced sales value of the mortgaged property which is contrary to the limit directed by the Bank. Although the necessary

25/11/2019, but that facility was not granted. In 2022, the branch sent the final notice to the customer. As per discussion with the customer and DGM Business Revival and Rehabilitation Unit (BRRU) on 19.09.2023, BRRU proposed a loan to customer to operate the Fuel station in full capacity and to reschedule the existing facilities. But still customer did not submit the necessary documents. BRRU has informed on 13.11.2023, they will return the file if customer is unable to provide the request documents.

It has been pointed out that Rate of Advance (ROA) is 88.24% for the proposed facility according to the valuation done in 2015. However, in the letter of Assistant General Manager (AGM) – Western Province North (WPN) dated 24.07.2017 regarding the valuation comments of the same property, has mentioned that the Forced Sales Value (FSV) has been increased up to 30.0Mn and which has caused to reduce the ROA and mitigate the risk.

In memorandum for this facilities, it has been clearly mentioned that the borrower’s position and she has been

Need to follow up the recoveries.

approvals have been obtained to exceed the Rate of Advance, the recoverability is doubtful due to over advancing which posing high risk towards relationship with PEPs. Even though, the borrower has agreed to make Rs. 150,000 monthly payment, no any payments were made as agreed. The bank has hold amount of Rs. 0.75 Mn at saving account no 70748628 as at 16 May 2023 and current position of the existing facilities are as follows.

Facility No.	Facility Granted Date	Outstanding balance as at 16/05/2023 (Rs.Mn)	NPA Date
78010386	23/09/2015	9.68	23/01/2020
85125582	14/11/2019	5.14	16/08/2020
6876751 (POD)	30/10/2017	5	14/02/2020
6876751 (TOD)	15/11/2019	2.59	

d. Loan No. 83906656

The Bank has granted a loan facility amounted to Rs.9 Mn at interest rate of 17 per cent p.a for 68 months period under the aforesaid loan number for the purpose of purchase a land with building. The facility was granted on 15 February 2019 and two personal guarantors were considered for the security. Subsequently the facility was transferred to non performing category on 18 April 2021. The outstanding balance as at 17 May 2023 was Rs.13.95 Mn including capital of Rs.8.1 Mn and interest of Rs.5.85 Mn. The customer had not made any payment after the loan transferred to NPA category on 18 April 2021.

recognized as a PEP customer, and it has been predicted that her knowledge regarding the horticulture and management skills and favorable contacts may helpful for success in her business. However, as the property contains a high market and residential value the bank has a good security against the provided facilities.

After the facilities has been transferred to Non-Performing Advances (NPA) section, the customer has requested to reschedule the loan and the branch took necessary prior approvals to reschedule the facilities and the borrower agreed to pay Rs. 150,000 monthly. Unfortunately, she has failed to continue the agreed payments with the economic crisis of the country. However, after she agreed to transfer Rs. 200,000 from her current account **90210409** (“Helarasa Nishpadana Saha Sahal Mola”) and at present she is paying considerable amount for her NPA facilities.

The branch has erroneously issued a letter of offer which consists the condition “DTA policy should be obtained”. However, the approved memorandum has no such condition.

However, the condition imposed in the approved memorandum as “Applicant’s future facilities to be proposed under property mortgage” one short term pledge facility (84886899) has been granted to stock the harvested

Need to follow up the recoveries.

Following non compliances by the customer were observed;

- Although cash flows of the business should route through the CA 70313040 maintained at BOC branch as per the operational conditions stipulated in the offer letter, no such transaction had routed since 31 January 2021.
- The “Decreasing Term Assurance (DTA) Policy” had not been obtained as per the special conditions stipulated in the relevant offer letter.
- The conditions of point no. 05 and 10 indicated in the Annexure to the memorandum have not been adhered as follows;

Point 05 - A compulsory savings build up had not been done.

Point 10 - The bank has granted three loan facilities bearing loan numbers 84192412, 84301412 and 84886899 under personal guarantees, although the future facilities to be proposed under property mortgage.

Furthermore followings deficiencies were observed in the memorandum.

- The Memorandum was not signed by the AGM (Uva) and Area Manager.
- Applicant appeared as a guarantor for a written off loan facility at other financial institute under CRIB.
- The one guarantor figured as a default guarantor for a facility granted by Peoples Leasing PLC.

e. Loan No. 84886899

The Bank has granted a loan facility amounted to Rs.20 Mn at an interest rate of 12 per cent p.a for 06 months period under the aforesaid loan number for the purpose of Paddy purchasing on 23 September 2019. Local Stock valued at Rs.27.4 Mn and two personal guarantors were considered as the security. Subsequently the facility was transferred to non performing category on e outstanding balance as at 17 May 2023 was Rs.7.2 Mn including capital of Rs.5.3 Mn and interest of Rs.1.9 Mn. One of the guarantor appears as a guarantor for a defaulted loan facility of Rs.5 Mn obtained from the Finance company which recorded outstanding balance of

paddy against pledge over stock of paddy and two personal guarantors as per the circular issued for pledge facilities.

Facility No. 84192412 and 84301412 were indirect liabilities of Mr. Dias.

The Assistant General Manager (Uva) and Area Manager has given their approval and the recommendation respectively in separate annexure and it has been mentioned in the memorandum.

Applicant and the guarantor had been appeared in CRIB adversely and the approval to entertain the facility had been obtained from the province AGM as delegated. Recovery actions have been already initiated.

According to the section 07 of the OIC No. 279/15, “securities should be

Pledge over stocks

- Joint and several personal guarantee of Directors or guarantee of any other two persons acceptable to the Bank
- Insurance Policy”

Accordingly, the branch has erroneously issued a letter of offer which consists the condition “DTA policy should be

Need to follow up the recoveries.

Rs.1.5 Mn for which Legal action is ongoing. And other guarantor was appeared as a default borrower for a lease facility. The “Decreasing Term Assurance (DTA) Policy” had not been obtained as per the special condition stipulated in the offer letter.

f. Loan No. 87370868

The Bank has granted a loan facility amounted to Rs. 5.34 Mn at an interest rate of 5.75 per cent p.a for the 24 months period under the aforesaid loan number for the purpose of “to grant debt moratorium concession for the loan facility No.85325534”. The facility was granted on 31 March 2021 and loan agreement was considered for the security. Subsequently the facility was transferred to non-performing category on 11 August 2021. The outstanding balance as at 19 May 2023 was Rs.6.03 Mn including capital of Rs. 5.34 Mn and interest of Rs. 0.70 Mn. Moratorium converted facility has matured on 31 March 2023 and no any repayments were received.

g. Loan No. 88277971

The Bank has granted a loan facility amounted to Rs. 6.59 Mn at an interest rate of 8 per cent p.a for the 33 months period under the aforesaid loan number as a IV Moratorium loan. The facility was granted on 23 December 2021 on clean basis (against the Loan agreement & Offer letter). Subsequently the facility was transferred to non performing category on 30 September 2022. The outstanding balance as at 03 October 2023 was Rs.7.51 Mn including capital of Rs. 6.59 Mn and interest of Rs.0.92 Mn.

It was observed that, the bank has granted following loans facilities to the same customer on clean basis, which were already at non-performing status.

Loan No	Security as the ICBS	Pay off amount as at 26.06.2023 (Rs. Mn)	NPA transferred at date
88277971	Loan agreement	7.35	30.09.2022

obtained”. However, the approved memorandum has no such condition. Insurance had obtained for the paddy stock as per the above mentioned OIC.

Branch sent the final notice on September 2022. After that, the Branch Officials had several discussions with the customer, he agreed to settle these facilities on or before 20 November 2023.

Need to follow up the recoveries.

All facilities are moratorium sub loans. These five No. of lease facilities granted to purchase five No. of busses. Hence the facilities were granted on clean basis where the absolute ownership of the lease assets is with the Bank.

Need to follow up the recoveries.

88277748	Loan agreement	2.38	
88277546	Loan agreement	2.55	
88277358	Loan agreement	2.28	
88276957	Loan agreement	2.34	24.10.2022

h. Loan No. 87738119

The Bank has granted a loan facility amounted to Rs.7.7 Mn at interest rate of 12 per cent p.a for 120 months period under the aforesaid loan number for the purpose of settlement of existing facilities of loan Nos. 85764387, 86811155, 86818226, 85988344 and 86841068 which are having more than three months arrears. The facility was granted on 02 August 2021 against mortgage over immovable property. Subsequently the facility was transferred to non performing category on 15 September 2022. The outstanding balance as at 26 June 2023 was Rs.9.62 Mn including capital of Rs.7.31 Mn and interest of Rs 2.31Mn.

Although the facility has been granted for the purpose of settling existing non performing (NP) facilities, new facility has been categorized as fresh facility instead of categorized as rescheduled facility. Accordingly, it indicates that the purpose of granting this facility was to reduce NP position of the branch and the accurate risk factor does not reflect through the new facility categorization, since it has identified as zero risk facility.

As per the conditions of the credit granted memorandum dated 12 July 2021, manager should release the amount of working capital requirement after the proper inspection made on the business and should ensure that the funds have been utilized accordingly and safety with the stock level and relevant inspection reports should be lodged with the security. However full loan proceed has been disbursed on same date and working capital portion of Rs.0.9 Mn has been released at once without prior inspection about the utilization of funds.

No periodical inspection reports and post inspection

The facility of Rs.7.7 Mn had been granted to settle the outstanding of five facilities and for the working capital requirement (Rs.1.2 Mn). Branch had not complied with the prevailing guidelines under loan categorization.

Relevant inspection reports have been lodged with security documents.

Business transactions have been routed through the savings account No.85930587 instead of the current account.

Standing order had been activated for savings build up. However, it has been cancelled automatically due to insufficient of funds in the account.

Need to follow up recoveries.

reports were available in the security file and no, audited financial statements submitted on or before 30th of September in each and every year.

Moreover, all the business transactions and business cash flows had not been channeled through the current account maintained at Branch and Branch Manager had not monitor the same. A compulsory savings build up had not been built up as agreed.

i. Loan No.71893274

Bank has granted a loan facility amounted to Rs.10 Mn at an interest rate of 13.5 per cent p.a for the 180 months period under the aforesaid loan number for the purpose of purchase a house. The facility was granted on 22 June 2011 against mortgage over resident property. Subsequently the facility was transferred to non performing category on 21 September 2020. The outstanding balance as at 06 July 2023 was Rs.7.47 Mn including capital of Rs. 6.06 Mn and interest of Rs. 1.41 Mn.

Although the revised interest rate on Housing Loan Scheme was 20 per cent p.a as per the section 2.3 stipulated in 6th Addendum to Office Circular No. 129/2006, it was observed that the AGM (Consumer Product Manager) was approved 13.5 per cent p.a for the foresaid loan.

Moreover, rate of advance should be 75 per cent of the market value of Rs.13 Mn or 80 per cent of the purchase price of Rs.11 Mn, whichever is lower as per the section 2.0 stipulated in 1st Addendum to Office Instructions Circulars No. 129/2006. However, bank has granted Rs.10 Mn which indicates 77 per cent of the Market Value and 90 per cent of purchase price contradict to the said instructions.

The facility was granted on 22.06.2011 and at the time of granting the facility. The rate applicable for housing loans is 13.5% p.a. (Treasury Notice 140).

Legal actions have already been initiated. Final notice has been sent on 23.10.2023.

Need to follow up recoveries.

j. Loan Nos. 89724786 / 89069209

Bank has granted 02 loan facilities amounted to Rs. 8.046 Mn at an interest rate of 28.45 per cent p.a for the 03 months and Rs. 10.960 Mn at an interest rate of 23.62 per cent for the 02 months period to FIBC LANKA (Pvt) Ltd under the loan numbers of 89724786 and 89069209 respectively under the security of Hypothecated Stock. Subsequently facilities were transferred to non-performing category on 16 April 2023 and 07 November 2022 respectively.

These two credit facilities were granted as sub limits of Hypothecation Facilities and Asset and Management Committee granted its approval to apply the rate of interest of Monthly AWPLR+2.5%. The company agreed to full settlement before 31 December 2023.

Need to follow up recoveries.

k. Loan No. 90919171/90919189

The Business Revival Unit of the bank has granted rescheduled loan No.90919171 and No.90919189 amounting to Rs.273 Mn and Rs.126 Mn respectively on 23 June 2023 at an interest rate of 18 per cent and 5 per cent per annum and for the period of 28 months for the settlement of three rescheduled loans granted on 25 July 2019.

The bank has waived off penal interest and accrued interest in several instances was observed.

Further it was noted that the age of these customers are posing high risk where the bank is not consider for other customers and bank's risk rating given them is high risk. The Bank has ignored the impact of CRIB report since the customer was adversely appeared in CRIB as default borrowers and guarantors .Furthermore the borrower has failed to bring the equity contribution as agreed and as expected, since the Debt Equity Ratio is 94: 06.

The Rate of Advance (ROA) of 173 per cent on Market value of Mortgage properties has been granted by the bank without considering the credit worthiness and repayment ability of the customer. This issue also recognized by the Chief Risk Officer on 26 April 2023 too.

i. The Credit Committee at its meeting held on 23.04.2023 has granted approval to transfer the customer to BRRU in order to complete the housing project. Accordingly, the new revival package has been approved by the Credit Committee at its meeting held on 23.04.2023 and facilities were granted as per the approval and settled the previous reschedule facilities. Subsequently, this has been reported to the Board as the customer is a PEP.

Need to follow up recoveries.

ii. Even though the Loan facility of Rs. 52.0 Mn customer has been categorized as Stage III and the provision has been made accordingly. Further, impairment provision as at 30.09.23 is Rs. 216.36 Mn.

iii. According to the approved BRRU policy business units allow to waive 100% of the penal interest. Further interest concessions were granted to the borrower when rescheduling the facilities as Terminal Benefit 25%

encouraging the customer to repay the facilities as agreed. This is not a special treatment and Bank offers such kind of concessions to default borrowers.

iv. Even though the applicants are over 60 years, facilities are secured against mortgage over property.

v. As per the approved BRRU policy facilities can be granted for the borrowers who are adversely appears in CRIB with approvals.

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

Reference to Non Compliance Laws, Rules Regulations etc.		Management Comment	Recommendation
(i) Bank of Ceylon Ordinance No.53 of 1938 and Direction 3(2)(i) of Corporate Governance Directives issued by the Central Bank of Sri Lanka	The Bank has not complied with the minimum of 6 director's requirement as per the Bank of Ceylon Ordinance and Corporate Governance Directives during the year 2022. (01 February 2022 – 31 December 2022)	Comment Noted This is beyond the control of the Bank since the directors are appointed by the Minister in charge of the subject of Finance. The Bank has informed of the vacancy to the Ministry (Amendments to BOC Ordinance to increase the number of Directors as per CBSL guidelines have been submitted to the Ministry. More amendments are to be proposed with the new Government initiative).	It is recommended to comply with the requirement of Bank of Ceylon Ordinance and Corporate Governance Directives.
(ii) Financial Transaction Reporting Act, No. 6 of 2006	Central Bank of Sri Lanka imposed Rs.3 Mn penalty on 13 October 2022 for the reason of failure to identify a customer out of all business relationship as per the said regulation.	The subject person who was identified as a designated person in a designated list issued by the local regulator in 2018 under United Nations	Need to comply with relevant regulation.

Regulations No.1 of 2012, is a customer on-boarded in year 2013 by the Bank. However, due to large number of alerts generated in the new Anti-Money Laundering (AML) system at the migration stage, Bank was able to handle part of the created alerts.

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|-------|---|--|---|---|
| (iii) | Section 10.3 of the Guideline on Identification of Politically Exposed Persons stipulated in Office Instructions Circular No: 001/2023 dated 28 March 2023. | Existing PEP relationships should be reviewed annually and under the static data panel (at Customer Identification File (CIF) level), "DOC ACTIVITY DATE" should be updated as per format. However, in the sample checking it was observed that bank had not reviewed customers annually as at 20 July 2023 who bearing CIF Nos.17301998, 14427614, 18265658, 03836180, 150185268, 00312687 and 00312950. | Already instructed to relevant authority to conduct an annual Customer Due Diligence (CDD) review and update the system accordingly. | Need to reviewed annually without any fail. |
| (iv) | Section 5.4.7 (b) of the Bank's Procurement Manual 2014 | The Procurement Committee of the Bank has not complied with requirement of obtain the performance bond valid 28 days beyond the intended completion date in the following instances. <ul style="list-style-type: none"> • Obtained up to 03 months period for six months driven project of Consultancy for Data Center Modernization Project. • The initial performance bond was valid up to 18 days from the date of completion of setting up the Data Center Infrastructure Project. | According to the Procurement Manual, Performance Guarantee should be valid 28 days beyond the intended completion date for works. Since it is a consultancy service, Performance Guarantee was obtained for three months. | Need to comply with guideline. |
| (v) | Section 4.2.2 of the Bank's Procurement Manual 2014 | The Procurement Committee of the Bank has not complied with requirement of preparation of Procurement Time Schedule (PTS).
Ex:- Consultancy for Data Center Modernization Project & setting up the | Noted, Procurement Time Schedule was prepared and filed. | Need to prepare PTS for each procurement. |

Data Center Infrastructure Project.

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|--------|--|--|--|--|
| (vi) | Section 4.2.1, (a, b, c, and d) of the Bank's Procurement Manual 2014 and Section 5.2.1 of the Guidelines for Selection & Employment of Consultants, August 2007, published by the NPA of Sri Lanka, | The Procurement Committee of the Bank has not complied with the requirements of,
- Prepare the Master Procurement Plan (MPP),
- Procurement activities envisaged at least for a period of three years
- Procurement activities for the immediately succeeding years prepared in detail,
- Regularly updated MPP at intervals not exceeding six months. | The budgetary allocation was done as per the Procurement Plan for the coming years.

Noted.
Arrangements will be made to adhere to the guidelines. | Need to comply with guidelines. |
| (vii) | Section 9.2.1.2 of the Scheme of Recruitment (SOR) of Bank | 04 staff assistants have been selected for Network Operation Center (NOC) as System Analyst Programmer without conducting examination and interviews as opposed to the procedures stipulated in Bank's SOR. | The SOR applies in recruiting of external candidates to the Bank. These 4 employees were temporarily transferred to the IT Division which was not governed by SOR. However, new applications have been called from Banking Staff and will be selected through an examination followed by an interview. | Since internal transfer policy not apply for transfers between banking and non banking staff and need adhere with SOR. |
| (viii) | Section 22 of Sri Lanka Financial Reporting Standard (SLFRS) - 16 | 71 number of lease agreement had not been identified as Right of Use Assets for the year 2022. | Relevant authorities have been informed to expedite the processing and submission of pending agreements. | Need to adhere with standard's requirement. |

1.8 Non -Compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
(i) An assessment report issued by the Inland Revenue Department (IRD) to the Bank as at 31 December 2022 shows tax payable amount of Rs. 5,653.41 Mn. However, bank has provided only a provision of Rs.1,500 Mn in	These assessments have raised by Inland Revenue Department (IRD) due to disagreement on consideration of fair value adjustment on staff loan for VAT and NBT on Financial Services and capital gain on	Need to make adequate provision in the Financial

the financial statements as at 31 December 2022 and no any provisions were made for remaining payable balance due to the disagreements with assessments raised by IRD and bank is in the appeal process.

sale of Mireka Capital Land (Pvt) Ltd. Dispute on fair value adjustment on staff loan is applicable to all industry peers.

However, bank is in the appeal procedure at the Tax Appeals Commission.

A new assessment on VAT on Financial Services has been issued on 28 December 2022 for the year of assessment 2019/2020 and the amount payable for the said year of assessment reduced from Rs. 858.72 Mn to Rs. 189.15 Mn. Accordingly, the total tax assessed by IRD for VAT on FS and NBT on FS is amounting to Rs. 1.35 Bn excluding penalties Even though, the tax liability is Rs. 1.35 Bn the bank has made a provision of Rs.1.5 Bn in the financial statements for the year ended 31.12.2022 for these assessment payables without considering penalties.

Further, the transaction of sale of Mireka Capital Land Pvt Ltd is a capital transaction not fall within the four corners of IRA 2006. Further, there is no any disputes between bank and the IRD for Income tax for the year of assessment 2017/2018.

Statements for the assessments if there is susceptibility of paying.

1.9 IT General Controls

Audit Issue	Management Comment	Recommendation
(i) Certain user accounts were duplicated, identified based on Text, Profile and Name and remained active in Integrated Core-Banking System (ICBS), Smart Pay, Smart Remit and Internet & mobile bank systems.	<u>Smart Pay & Smart Remit</u> Most of the user logins are attached to foreign branches. <u>ICBS and Internet & mobile bank systems</u> Actions taken for identified users.	Need to remove all duplicated logins within the stipulated time target and take corrective actions on not to duplicate in future since fraud or misuses can be encountered. Need to take arrangements to clear un-
(ii) Non-utilised user accounts were remained in Smart Remit, Trade Finance, Base 24, Palm Top, Finacle Treasury, Internet and Mobile Banking, Prime4 and Document Management	<u>Smart Remit</u> Application Programming Interface (API) users do	Need to take arrangements to clear un-

System (DMS) as at 31 December 2022, since certain users had not logged into respective systems during the financial period.

not need to log in to the system. Instead, users are required to authenticate themselves using their API credentials.

For users from branches/departments, users have requested the creation of a user profile, and there has been no request for user termination.

Finacle Treasury

All non-utilized user accounts in Finacle Treasury are deactivated and authorized on 08.06.2023.

PRIME4, Int. And Mobile Bank, DMS

Rectified for identified list.

BASE 24

Rectified for identified list. Arrangements are made to clear non-utilized user accounts regularly.

Palm top

New functionality has been implemented to automatically deactivate inactive users in the system.

Trade Finance

Implemented a new solution.

utilized user accounts regularly since fraud or misuses can be encountered.

(iii) Bank had not define adequate password parameters for the application level password parameters defined in Trade Finance, Base 24, System 21, Smart Remit, Palm Top, Smart Pay and DMS Systems as follows;

Password Parameter	Application	Applied Setting	Leading Practice
Minimum password length	Base 24	6 Characters	8
	System 21	6 Characters	8
	Palm Top	6 Characters	8
	Smart Pay	6 Characters	8
	DMS	15 attempts	8
Number of unsuccessful logins before lock-out			3-5 attempts

Base 24

It will be completed in near future.

System21

Password Length 6 Chars - User can change the password as required length.

Palm top

This also will be increased to 8.

SMART PAY

Minimum characters will be increased to 8.

DMS

Number of unsuccessful logins attempts are limited to 5.

Need to define adequate password parameters for the application level security configurations.

(iv) Certain user accounts of resigned employees were not deactivated and remained active after their resignation dates of Finacle Treasury, Smart Pay, Smart Remit, Internet and Mobile Banking, Prime 4 and DMS systems at the time of audit review.

A mechanism is in place in the Bank where HR department informs relevant AGMs, chief managers, senior managers and system administrators of respective departments to delete/deactivate the passwords of the resigned employees upon receiving the letter of resignation. Thereby, relevant application managers and system administrators of respective divisions take actions to delete user profiles of resigned employees promptly. The stated incidents are subsequently rectified.

Need to deactivate user accounts of resigned employees with immediate effect of their resignation.

(v) Significant delays exist in the certain resigned employee's user account deactivation procedure of ICBS, Trade Finance,

ICBS

Noted to streamline the

Need to streamline the

Base 24, Palm Top, Smart pay and Smart Remit Systems.

process in the future.

deactivation process since fraud or misuses can be encountered.

Trade Finance

Deactivation process streamlined on March 2023.

Base 24

Noted to streamline the process in the future and the stated user account (PF 122569) has now been deleted.

Palm Top

The Palmtop banking system was added as a critical system to notify when a staff member is resigned/ terminated by the HR division. Once the AD deactivated, PLAMTOP user cannot access the system.

Smart Pay

Noted to streamline the process in the future.

Smart Remit

Remedial actions have been taken to deactivate resigned users as we receive confirmation.

(vi) **a. Developing change in Finacle Treasury**

Same officer had done the development of relevant changes and the live migration relate to the changes made in Finacle Treasury application. Accordingly, no any segregation of duties was observed which establish credible of internal control.

Ex:

a. Due to the lack of staff the same member had to handle the changes. However, with the new recruitments this is being addressed. Need to segregation of duties to establish credible of internal control.

Name of the Change	Live Implemented Date
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Additions of new currency- Indian rupee (INR) into Exchange Rate Circular in Finacle Treasury System and publish cared rates to core	22/12/2022
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banking system.

Exchange rate interface was 02/05/2022

modified to care the requirement
of Trade Finance new system.

b. Service Level Agreement

- Maintenance agreement signed on 23 December 2022 between the bank and the Informatics (Pvt) Ltd. Regarding the Automatic Teller Machines system has expired on 31 December 2022. Furthermore, as per the agreement submitted for audit by the bank, it was observed that the agreement has been signed 09 days before its expiry.
 - As per the confirmation received through an email dated 23 February 2023, it was observed that the Annual Maintenance Contract (AMC) regarding Smart Remit application has expired on 26 July 2022 and it has not been updated as at the date of audit on 19 May 2023.
- b. Several negotiations were carried out in order to reduce the price quoted by the vendor to get the maximum benefit to the Bank since the vendor has quoted high price. Need to be update service level agreement on time.
- IR Department initiated the Smart Remit system revamping project in 2021 and the development was done while the older system coexisted in the live environment. The AMC payment for the older Smart Remit version was done until 26.07.2022 and the system was decommissioned in November 2022. IT division has negotiated with the vendor and briefed that its not required to pay AMC for both the systems. As such the bank has made the AMC payment for Smart Remit Version 2 on 01.04.2023.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.32 Bn and the corresponding profit in the preceding year amounted to Rs.37.6 Bn. Therefore, a decrease amounting to Rs.5.6 Bn of the financial result was observed. The main reason for the decrease is the increase of interest expense by Rs.180.7 Bn or 121 per cent in the year under review when compare with the corresponding year.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review as compared with the preceding year with the percentage of increase or decrease are given below.

Description	Variance Amount Increase/ (Decrease) (Rs' Bn)	Variance %	Reason for the Variance
Interest Income	195.75	75.1	Interest income has increased mainly due to increase of interest rates of loans and advances and debt and other instruments in the year under review when compare with the preceding year. While loan and advances were reduced by 3.7 per cent during the year, interest income from loan and advances has increased by 60.6 percent due to reasonable increase of interest for loan and advances. While balances of debt and other instrument increased by 43.8 per cent, the interest income from debt and other instrument has increased by 118.8 percent during the year due to the interest rate effect.
Interest expense	180.66	121.0	Interest expense has increased due to high interest rates prevailed throughout the year. While the deposit base of the bank has increased by Rs.467.9 Bn or 16.3 per cent, interest expenses on deposit had increased by 86.9 per cent in the year under review when compare with the preceding year.
Impairment Charges for loan and other losses	43.42	99.3	Impairment charge has increased mainly due to increase of stage II and III loan exposure, provision made for government and SOE foreign currency denominated loans and other investments, increase of impairment provision on risk elevated industries such as tourism and construction and increase of stage I impairment provision due to increase of stage I loan portfolio of the Bank. The root cause was country downgrade from category "CC" to "RD", resulted loss rate of both sovereign bonds and Sri Lanka Development Bonds (SLDB) increased from 0 per cent to 40 per cent and 12 per cent respectively.

2.3 Ratio Analysis

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

Description	Sector Ratio	Bank	
		2022	2021
Performance Ratios			
Return on Equity (ROE)	10.5	14.1	21.0
Return on Assets (ROA)	1.0	0.8	1.3
Interest Margin	4.0	3.1	3.3
Assets Quality Ratio			
Gross Nonperforming Advances (NPL)	-	-	5.1
Stage III loans to Total Loans and Advances	11.9	12.6	-
Capital Adequacy Ratios			
Tier 1 Capital (Minimum 8.5%)	12.3	12.4	14.3
Total Capital (Minimum 14%)	18.3	15.4	17.8
Statutory Ratio (Minimum Requirement 20%)			
Liquid Assets Ratio (Domestic)	29.9	21.2	25

3. Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
<p>(i) An amount of Rs.78.5 Mn was recorded in the “Reserve on Forged Cheques and Frauds” account as at 31 December 2022.</p> <p>The main contribution for this provision was Rs.65 Mn fraudulent cash withdrawal from savings account bearing number 88380782 belongs to dead customer on 11 November 2022. Relevant account has been inquired several times and majority of those inquiries from personal branch. A cash hold of Rs.95 Mn has been placed on 12 September 2022 using cash officer’s password and new passbook has been issued and updated using suspicious cash teller password. The lapses in passbook running stock controls have been contributed to this fraudulent act. A withdrawal of Rs.65 Mn has been taken placed at the personal branch by cash teller (PF No. 219338) and withdrawal slip has not been proceed either to A class or B class signature. Cash teller has used his</p>	<p>Comprehensive Policies and office instruction circulars are in place.</p> <p>Investigations have been carried out for the case highlighted.</p> <p>Some cases are pending receipt of insurance claims.</p> <p>Internal Control Officer (ICO) officers are placed to verify the correctness and adherence of circulars in the branch network with the support of sophisticated IT solution to raise concerns related to branches and monitoring mechanism handed over to province</p>	<p>Need to strictly adhere with internal control procedures and need mechanism to monitor their compliance.</p>

password and “A” class officers’ password for overriding and failed to refer this withdrawal to parent branch as required by Circular No. 116/2006. Root cause of this incident was that not following the laid down proceeding including fundamental control like password control.

Operations Managers.

(ii) A difference of Rs.397.6 Mn between the General Ledger balance and the outstanding balances of the Bank Trade Finance System was charged to “Reserve on Forged Chques and Frauds” account (GL No. 22310122) and full provision has been made in this regard during the financial year 2021 and action has not been taken to reconcile those balances up to the end of year 2022.

As per the instructions of Assets and Liability Management Committee, Chief Internal Auditor carried out an investigation reconciled 615 number of loans out of total of 845 and has observed that they are unable to reconcile the remaining 230 loans (outstanding interest amounting to Rs. 61,584,979.78) due non availability of sufficient information. Therefore, Trade Services commenced a case by case detailed analysis for those loans to reconcile with the GL balance.

Actions need to be taken to clear unreconciled balances.

(iii) Recognized frauds value has been increased from Rs.0.9 Mn to Rs.78.5 Mn by Rs.77.6 Mn in the year 2022 when compared with preceding year due to fraudulent cash withdrawal.

For the case highlighted investigations have been initiated. Policies and office instruction circulars are in place. Monitoring mechanism handed over to province Operations Managers.

Need to strictly adhere with internal controls and need to introduce closely monitoring mechanism.

3.2 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
3.2.1	The collective agreement signed between the Bank and Ceylon Bank’s employee union directs to pay the income tax liability of the employees by the Bank without being deducted from the employees’ salary. Based on that, the Bank has paid Rs.182.91	As per the Section 7 of Collective Agreement between the Bank and Ceylon Banker’s Employees Union (CBEU), Advance	Need to be borne by the staff.

Mn as PAYE tax on behalf of employees for the year ended 31 December 2022, without deducting from employee's earnings.

Personal Income Tax (APIT) on emoluments of staff shall be borne by the Bank. Since 01.01.2023 tax liability is deducted from the staff.

3.2.2 There was a significant deficit in bank's debit cards stock (VISA and Master Card) as at the audited date of 04 October 2023 and following concerns were observed thereon;

Need to closely monitor the card stock in order to fulfill the customers' requirement without any fail.

(i) The Bank has ordered one million debit cards from M/S Sharon Solutions Limited on 21 April 2021 under the bid no. P/PROC/2020/129. After receiving only 75,000 debit cards (VISA) on 12 August 2021 by the Electronic Banking Center, it had been withheld the continuation of the procurement.

i. The supplier had not delivered the cards as per the delivery time schedule, despite of several reminders. The payment was made only for the delivered cards.

(ii) As per the Board Minute No. 6.1 dated 07 July 2022, the Board of Directors has given approval to purchase two million debit cards and thereby initiate the procurement process. Later as per the Board Minute No. 6.4 dated 14 February 2023, the Board of Directors has canceled this procurement due to the limitation of competitiveness as of the defects in the bidding criteria processed by the Technical Evaluation Committee. The bank has consumed almost 10 months to take the decision regarding the fundamental banking needs and incurred Rs.0.5 Mn for this purpose.

ii. Noted.

(iii) As per the Board Minute No. 6.2 dated 14 February 2023, the Board of Directors granted approval to procure stock of 900,000 debit cards from two separate suppliers. As per the procurement criteria and terms of conditions of the procurement, the price will be based on the CIF price and the bank has to clear the stock from the custom. The bank has maintain zero card stock at present and it's required to maintain a buffer stock of approximately 200,000 – 250,000 debit cards

iii. After adhering to proper procurement procedure, Master DI Cards 300,000 from selected bidder has been delivered to Electronic Banking Division on 18.10.2023 and also VISA DI Card 250,000 has been delivered on 03.11.2023. Further, another 350,000 Nos. Visa

as a practice. It was observed that the bank has not given any attention thereon and acted accordingly. This was directly impacted to the bank customers' dissatisfaction & goodwill of the bank's name with absences of issuing debit cards to the customers on their demand.

Cards will be delivered within the month of December.

Bank has floated several bids for continuous and uninterrupted supply of Debit Cards and successfully completed them.

Further, at the moment, another 500,000 Nos. Debit Cards bids had been floated.

3.3 Operational Inefficiencies

Audit Issue

3.3.1 Data Centre Modernization Project

The Computer Division of the bank was established in 1981 and equipped /designed Data Centre (Computer room) was addressed during the year 1985. In order to address the long felt requirement of the bank with the introduction of IT related products and services, "Data Center Modernization Project" was carried out with three major procurements of consultancy for data center modernization, for setting up the data center infrastructure and for setting up electricity and cooling system. Thereon following observations were made;

(i) **Consultancy for data center modernization**

M/s. Power Scan (Pvt.) Ltd was selected as the consultant "Data center modernization Project" and the first newspaper advertisement for the selection of consultant was made on 09 September 2016 and subsequently second newspaper advertisement was made on 28 September 2016 as a request of the suppliers by incurring an additional cost of Rs.0.15 Mn. Further there was no any contractual agreement signed between the Bank and the M/s. Power Scan (Pvt) Ltd for this project and purchase order is using as the Contractual Agreement. The performance bond signed between the Bank of Ceylon and M/s. Power Scan (Pvt) Ltd has been expired on 31 December 2017 and the project has not been completed as at 31

Management Comment

i. The newspaper advertisement was published on 09.09.2016 and the initial bid opening date was 30.09.2016. . However, at the pre-bid meeting held on 22.09.2016 prospective bidders who had collected the bidding documents requested an extension at the pre-bid meeting as the given time is not sufficient for bidding and then Executive Procurement Committee (EPC) approval was granted to extend the bid closing and opening .There was a payment condition in the Purchase Order i.e. "40 % of the consultation charges will be paid upon completion of the new Data Center design and RFP for tendering process". Since,

Recommendation

Need to obtain UAT signoff and necessary updates at least get worth for incurred cost on this project.

December 2022. However, a payment of Rs.0.83 Mn has been made on 26 August 2019 even after the bond expiry.

(ii) Setting up the data center infrastructure

M/s V.S Information Systems (Pvt) Ltd was selected for setting up infrastructure for Data Center Modernization Project and significant delays were identified in selecting contractor for setting up the data center infrastructure since it had been taken more than two years period of time for the selection process of the contractor. There was no any contractual agreement signed between the Bank and the M/s. Power Scan (Pvt) Ltd for this project and Purchase Order is using as the Contractual Agreement. The server migration plan had not been prepared yet and thereby unable to identify the process of the server migration should be carried out and responsible parties thereon. Although the bank has already paid Rs.5.9 Mn to the contractor as server migration fees and included in payment milestone, while server migration was not presented clearly in RFP document and 'Bill of Material' provided by the vendor. The Bank has paid accumulated amount of Rs.87.54 Mn for M/s V.S Information Systems (Pvt) Ltd base on e-mail consent by the consultant without any report which proven the works that has been completed with the level of quality and quantity.

Although the Bank decided to separate the Data Center Project into two tenders as IT and Electrical cooling, the consultant had commented specially the both parts should go together and completed in full before the final User Acceptance Testing(UAT) is signed off by consultant since those are interdependent. However the consultant had complained about two years period delay of electrical cooling part of project by their email on 10 August 2020 by expressing their disagreement and obstacles on continuation of this project.

The bank has not obtained an Indemnity Insurance Policy against damage to the property of the BOC exposed to the Contractor/Agent during the execution of the contract within the premises of the Bank as per the condition 10 (“guarantees & warranties”) of the contract. The warranty

the design and RFP for tendering was completed, the payment was made.

Purchase Order acts as a contractual agreement, Bank has not signed a separate agreement.

ii. The procurement process for the Data Centre Modernization project includes power & cooling requirement as identified by the Technical Evaluation Committee (TEC). Several TEC meetings have been held to finalize the bidding document. In the last stage of developing of technical requirements, at the recommendation of the Head of IT and the Integrated Risk Management Committee (IRMC), the Board of Directors has granted their approval on 08.03.2018 to handover the activities related to the power & cooling to the Property Development PLC (PDL) which is handling all activities related to power & cooling of the entire Bank’s head office building as the landlord. Then the procurement was separated in to two procurements, the Power and Cooling was handled by the PDL.

The bids for the revised RFP were called on 29.10.2018 and bids closed on

period of Sever Racks, Novec based fire suppression system, IP Camera system and Network video recorder in the new data center has been expired prior to the completion of the project since warranty period was defined as two years as per the requirements of the RFP. Further, following significant delays were observed after purchasing the service of a consultant comparing to the “procurement time schedule” of this project.

Bidding process stage	Scheduled dates as per procurement time schedule	Actual dates	Delay Period
Bid evaluation	06.08.2018	01.04.2019	07 months 26 days
TEC recommendation for evaluation report	08.08.2018	09.05.2019	09 months 06 days
Approval for evaluation report (CPC)	13.08.2018	14.05.2019	09 months 01 day
Financial board approval	17.08.2018	04.06.2019	09 months 18 days

10.12.2018. Thereafter, several solution presentations and TECs were held before shortlisting the bidders in order to select the contractor. Purchase Order has been issued subsequent to the acceptance of Letter of Acceptance by V.S Information Systems Ltd. The Purchase Order act as a contractual agreement.

Server migration process is handled by the respective server hardware vendors. Preparation of server migration plan has been completed by the Bank’s IT Division (Data Center and Network units).

Server migration and providing the cooling & power requirement was a responsibility of different service provider/s who have been selected under a separate bidding process conducted by Property Development PLC.

Due to the delay (in pandemic situation and travel restrictions) in supplying of power and cooling, server migration activity also got delayed. Therefore, on the request of contractor, V.S Information Systems Ltd a partial payment of Rs. 5.9Mn has been considered based on the work .

Though the server migration has identified as the 4th payment milestone, the cost related to server migration

was not included in the above payment, since it has not been included in the technical specifications of the bid. Further, server migration is a responsibility of the hardware service provider.

Further, the consultant has given his consent to release the milestone payment by his email dated 08.10.2020.

Since the contractor had completed the infrastructure installation, payments amounting Rs.87.5 Mn were made for the works completed by 5 instalments.

. The 1st 10% payment is an advance payment that is based on submission of an advance payment guarantee whereas the 2nd payment on delivery of all imported items to the Bank. Further, representatives of the consultant's company, Power Scan (Pvt.) Ltd have inspected the delivered products time to time as per the delivery. However, for the consecutive milestone payments have been made as per the consent given by the consultant and the project completion is subjected to the consultant sign-off.

The Bank has to obtain certain services (electricity, networking, cooling etc.) through Property Development Ltd (PDL). Therefore, the tender was

split into two. As mentioned the tender process and importation of relevant equipment by PDL were delayed due to restrictions of Covid 19 pandemic including mobility and adverse financial situation in the country. At present, the above work is completed except of UAT sign-off . The consultant was given a deadline (11.08.2023) to submit his response indicating the date when he can complete the sign-off.

The Bids were opened on 10.12.2018. Bid evaluation completed on 01.04.2019. Accordingly about 4 months has been taken for evaluation including the solution presentation of 06 Bidders.

However, several TEC meetings have been conducted to finalise the specifications. and Board of Directors has granted their approval on 08.03.2018 to handover the activities related to the power & cooling to the Property Development PLC

The revised RFP received on 23.05.2018 but changes were being made time to time due to complexity of the project. The bids were finally able to call on 29.10.2018 and bids were closed on 10.12.2018.

(iii) Although the bank has incurred a total cost of Rs. 98.82 Mn (without cost for setting up electricity and cooling system by PDL) prior to 06 years, this project was not completed yet.

iii. The project completion is

(iv) Furthermore, the bank has spent Rs.2.98 Mn on foreign training to the two bank officers before this project procured and those officers had retired from the bank on 10 September 2018 (PF073980) and 31 May 2018 (PF133421) even before the completion of the project.

subjected to the consultant sign-off. Unable to directly contact the consultant due to he was not in the given address.

The consultant was given a deadline (11.08.2023) to submit his response when he can complete the sign-off. Since the Consultant not responded to the given date, Approval obtained to cancel the consultancy services of VSIS and appoint a new Consultant.

iv. The training program was purely on data center designing, therefore the officials who had been selected based on the experience in the Data Center, obtained the training and contributed to the preparation of technical specifications and infrastructure designing. Further, the knowledge sharing sessions were done among the project team.

3.3.2 Vehicle Fleet Management

The Bank had purchased a Navigation System (GPS System) from Dialog Axiata PLC in 2019 and 2020 by spending Rs.6.65 Mn for bank's vehicles and system is not using now. Furthermore, action had not been taken to upgrade the system and used for the purchased purpose.

Noted and discussions are going on with the service provider to upgrade the existing system.

Need to upgrade the existing system for use the purchased purpose.

3.3.3 Non performing Staff loan

The total outstanding balance of non-performing staff loans as at 30 April 2023 was Rs.248.6 Mn. As per the age analysis, the staff loan balances aggregating to Rs.28.7 Mn, Rs.54.9 Mn and Rs.165 Mn were remained

The identified non-performing balances include the loan outstanding of staff members who have been

Need to follow up recovery actions.

outstanding since less than one year, one to two years and more than two years respectively without recovering.

interdicted, resigned, vacated post, dismissed from the bank service and deceased.

Actions taken

Interdicted – Recovery action cannot be initiated till their disciplinary matters are finalized.

Resigned, Vacated post, dismissed – Recovery option initiated, staff who are resigned and vacated post are informed to settle dues.

Deceased

Family members are informed to settle and legal action to be initiated.

3.3.4 Analysis of the amounts written off and recoveries out of write off balances over last five years from 2018 to 2022 are as follows;

The bank recommend Need to follow up recoveries. facilities for write off, strictly adhering to the bank’s write off policy and the bank take every endeavor to recover the written off facilities after technical write off.

Year	Amount written off (Rs. Mn)	Amount Recovered During the Year (Rs. Mn)	Percentage of Amount Recovered against Amount written off during the year
2018	35.50	47.65	134%
2019	710.30	36.50	5%
2020	5.63	57.03	1012%
2021	73.73	1.66	2%
2022	13.61	0.65	5%
Total	838.77	143.48	17%

- Accumulated amount of write off for last five years of the bank was recorded as Rs.838.77 Mn and this included the highest write off balance of Rs.616.46 Mn belongs to the Tandont Lanka (Pvt) Ltd during the year 2019.
- Recoveries from write off balances of each year have been decreased gradually over the last five years except year 2020 and no recoveries from write off facilities was recorded in the year 2022 except credit card Center.

3.3.5 Under- Utilization of Funds

Capital items amounting to Rs.64.28 Mn were available in the stores for a long period as non-moving stock. These non-moving capital items may be wasted without getting true economic value.

Capital items have already been moved now and balance is Rs.25.39 Mn Said amount is comprised of essential items for the day to day work of branch network and they are in good condition.

Need to adhere with proper inventory management system.

3.3.6 With the intention of providing assistance to community service projects for the benefit of the public and the community in general, / maintenance and repairs to the children's Ward at cancer Hospital Maharagama, the bank of Ceylon had established the Ceybank Humanitarian Trust Fund (CHTF) by the Circular No HTF/1/2012 dated 01 October 2012 Instructions had been given to remit all non-business income to the Humanitarian Trust Fund Current Account at City Office Branch. However, it was observed that the balance of Humanitarian Trust Fund Current Account No. 350942 was Rs.62.08 Mn as at 31 December 2022 and the fund has not been utilized for the said purpose.

The Circular No. HTF/1/2012 dated 01 October 2012 has noted the purpose of the account as providing assistance to community service projects for the benefit of the public and the community in general/maintenance and repairs to the children's Ward at Cancer Hospital Maharagama. It was observed a payment of Rs. 6.7 Mn has been debited on 20.01.2015 as renovation for cancer hospital ward and Rs. 2.26 Mn and Rs. 0.57 Mn has been debited on 27.08.2015 for the flood donation programme. Existing balance as at 16.11.2023 Rs. 71.37 Mn.

Need to adhere with relevant guidelines.

3.4 Idle or Underutilized Property, Plant and Equipment

Audit Issue

An extent of 163,890 square feet of a 6 storied building out of total extent of 261,610 square feet situated at York Street belonging to the Bank had been used by the Metropolitan Branch and Western Province North Office up to the year 2013 and the rest of floor areas are still being used by the Hotels Colombo (1963) Ltd. A considerable area or more than 60 per cent of the building is being idle since 2013. As per the valuation report dated 17 October 2016, the value of the land and building was Rs.3,003 Mn.

The approval of Board of Directors has obtained to consolidate Hotels Colombo (1963) Limited (GOH) with Selendiva Investments Limited (SIL) and transfer the ownership of York Street Building (YSB) to SIL as per the cabinet approvals dated 04 March 2020 and 08 July 2020. However, the transferring process is still in progress.

Management Comment

The Director General of Ministry of Finance, Economic Stabilization and National Policies informed us by the letter dated 31.08.2023, that they have no objection to carrying out work aimed at ensuring the safety of the building, its occupants, and visitors and the bank already started the structural strengthening process of York Street building and the Bank has started the procurement process to select consultant/ contractor for the strengthening of the York Street Building.

Recommendation

Need to act accordingly.

3.5 Procurement Management

Audit Issue

- 3.5.1 As per the Definition of the Procurement Manual of the Bank of Ceylon 2014, “Services means services other than consultancy services”. However, there is no any internal guideline developed for the procurement of consultancy service for the Bank. Thereby, the separate guideline issued by the National Procurement Agency (NPA) in 2007 for selection & employment of consultants should be followed by the Bank. However the bank had not followed the said guidelines, though the absence of bank owned guidelines.
- 3.5.2 Significant variations were observed between the Capital Budget and Actual Capital Expenditure of the bank from year 2017 to 2022 in following categories.

Management Comment

Noted. Arrangements will be made to prepare a guideline for the Bank.

Noted. Approvals are obtained based on estimation.

Recommendation

Need to prepare a bank or apply NPA guideline.

Need to minimize variances.

Category	Variance Exceed/ (Behind) Budget 2022 (%)	Variance Exceed/ (Behind) Budget 2021 (%)	Variance Exceed/ (Behind) Budget 2020 (%)	Variance Exceed/ (Behind) Budget 2019 (%)	Variance Exceed/ (Behind) Budget 2018 (%)	Variance Exceed/ (Behind) Budget 2017 (%)
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Office Machines/Office Equipment	(77)	(76)	(34.32)	20.57	(14.88)	(74.0)
Furniture	(27)	(17)	18.6	29.21	60.39	(13.26)
Security Equipment	(94)	(99)	(81.3)	(76.15)	(43.42)	6.44
Vehicle (Transport Department)	(100)	(98)	(88.6)	(92.57)	(61.54)	(35.65)
Constructions (Premises Department)	(66)	(65)	(61.5)	(42.12)	(29.57)	(6.81)
Branch Transformation (Wenasa)	-	-	(77.2)	(79.29)	(64.59)	(76.12)
Computer Equipment – Hardware & Software (IT Division)	(59)	(52)	(45.1)	(33.73)	(36.75)	(15.56)
Purchase of Land	(100)	(98)	(94.3)	(53.23)	(64.41)	(36.45)
School Sansada works			(86.0)	(96)	(99.80)	-
Purchases for Holiday Homes (Pvt) Ltd	(22)	9.8	(91.5)	(64.34)	(88.5)	(29.6)
Contingencies Additional Budget for 150 Number of CRM's	(100)	(100)	(100)	(100)	(100)	(90)
	-	-	-	(42.98)	-	-

3.5.3 The bank had purchased properties in Negombo City, Waikkala, Bingiriya, Nattandiya, Galewala, Kandy Holiday Homes, Kiribathgoda, Kandapola and Peliyagoda at a total cost of Rs.709.8 Mn during the period from year 2017 to 2019 without having capital budget provisions for the relevant years.

Based on the business requirement, purchasing of Lands were done with the approvals of Board of Directors. Need to adhere with proper capital budget planning.

3.5.4 It was observed that majority of branches are operating under rental basis and bank doesn't have a proper policy regarding in which stage the branch should acquire a land for build up its own branch building or in which stage the bank should operate the branch building on rent basis.

Feasibility studies are being carried out by the province level while encompassing both financial and social aspects, to determine the viability of occupying the branch building in a leased out property or freehold property. Bank should have a documented policy.

3.5.5 As at 31 December 2022 there were 115 freehold properties owned by the bank and out of those, 27 numbers of lands were acquired after the year 2015 and constructions were only completed in 09 properties. When analyzing the completed constructions, it was observed that more than 5 years has been taken to construct a branch building from the date of land purchase. Accordingly significant delays were identified with the consultant selection and the construction of branches in purchased lands from the date of land purchase. Examples are as follows;

Due to pandemic/economic situation prevailed in that period, the Bank decided to defer several construction projects by prioritizing the needs of the Bank. Need to speed up the constructions.

Name of the Premises	Period Elapsed from Land Purchased as at 31.12.2022	Progress as at 31.12.2022
Bingiriya Branch	5 years	Contractor selection-temporarily hold
Dankotuwa Branch	Approximately 5 years	Land Purchase only
Waikkal Branch	5 years	Contractor selection-temporarily hold
Nattandiya Branch	5 years	Contractor Selection-process ongoing
Wariyapola Branch	Approximately 5 years	Construction on going
Marawila Branch	Approximately 5 years	Land Purchase only
Deniyaya Branch	3 years	Land Purchase only

Galle City Branch	03 ½ years	Construction on going
Karapitiya Branch	5 ½ years	Consultant Selection process ongoing
Ranna Branch	3 years	Land Purchase only
Ganemulla Branch	3 ½ years	Land Purchase only
Kribathgoda Branch	4 ½ years	Contractor Selection process ongoing
Negombo City Branch	Approximately 5 ½ years	Contractor Selection process ongoing
Kottawa Branch	3 years	Contractor Selection ongoing
Dematagoda Branch	7 years	Consultant Selection -Temporarily hold
Kandy Holiday Home	5 years	Construction on going

3.5.6 As per the Section 3.4 – Cost Estimate and Budget of the Guidelines for Selection & Employment of Consultants, August 2007, published by the National Procurement Agency of Sri Lanka, “Well-developed cost estimates are essential to ensure realistic budgetary allocations. The cost estimated for the proposed assignment shall be prepared by the PE based on assignment of the resources needed to carry out the activities: experts’ time; logistical support; and physical inputs.”

However the bank does not prepare any cost estimate for the proposed assignments and award the contract for consultant based on percentage of the contract sum of relevant project and later the cost estimate is approved by the board. However it was observed that subsequently the cost estimate approved based on the percentage of contract sum is increasing due to increase of the contract sum. Thereby, higher cost have to be incurred as consultant fee for construction of building rather than the cost estimates approved. Examples are as follows;

Name of The Procurement	Initially Estimated Consultancy Fee Rs. Mn	Final Consultancy Fee Rs. Mn	Difference of Consultancy fee (Initial Estimate with Final Fee) Rs. Mn	Percentage of difference
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Noted. Due to the pandemic/economic situation/ import restrictions prevailed in the country, cost of the raw materials increased unexpectedly. Therefore, actual cost increased drastically than the estimated cost. Since the consultancy fee was based on the contract sum, consultancy fee also increased.

Need to strictly adhere with Guidelines for Selection & Employment of Consultants.

Panadura City Branch	3.25	4.42	1.17	35.96
Walasmulla Branch	3.84	4.45	0.61	15.88
Ahangama Branch	1.57	2.09	0.52	32.81
Melsiripura Branch	3.51	4.12	0.61	17.24
Jaffna Branch	1.35	4.63	3.28	243.07
Matara Super Grade Branch	8.25	15.73	7.48	90.63

- 3.5.7 Every construction project should have prepared an Action Plan which should be clearly identified the responsibilities of the staff and physical and financial targets to be achieved. However no such plan was prepared for any project, where the progress of the project as a whole could not be monitored in order to take corrective measure and to make necessary changes if any, with the view of achieving construction projects objectives efficiently and effectively.
- Noted. Comprehensive construction programme is available for each awarded project based on which construction work is monitored and evaluated.
- Need to prepare “Action Plan” for every construction project.

3.5.8 Galle City Branch

Audit Issue

Management Comment

Recommendation

(i) Purchase a land for Galle City Branch

On 25 June 2019 bank has purchased a land for construction of Branch at the price of Rs.121.25 Mn. Following observations were made regarding the procurement activities;

As per the Section 1.3 of Design Guideline for BOC Branches, 51 perches required for build a two story building for Super Grade Branch and minimum road frontage should be 75 feet from the road. However, as per the paper advertisement the bank had requested a plot of bare land/ land with buildings approximately 25-40 perches in extent with minimum of 35 feet road frontage.

a. Since the newspaper advertisement had not indicated the structure of the branch building, fair, equal and maximum opportunity for interested parties to participate in procurement was discarded.

b. Bank had not requested a Bid Security in the paper advertisement for purchase of bare land/land with

a. Purchasing of a land being with the request/requirement of the relevant Business Unit and Bank follows the proper procurement process when purchasing a land.

b. Purchase of properties

Need to strictly adhere with procurement Manual.

building for Galle City branch as per the Section 5.3.11 (a) of the Procurement Manual 2014 of bank of Ceylon.

c. As per the Section 6.3.3 (a) and (b) of the Procurement Manual 2014 of Bank, Procurement Committee (PC) has not vested its authority to Bid Opening Committee and officer from Procurement Division was called and informed to one of the bidder to submit the plan and deed of the land prior to the bid closing date as per the paper advertisement was evidenced that Bid Opening Committee was not operated.

d. Although the Offer No. 01 not complied with Bank's requirement as per the Inspection Report dated 28 December 2018, the Committee was recommended to purchase the land subject to the following documents before finalizing the purchase.

1. Block approval for amalgamated survey plan
2. Soil investigation report
3. Valuation Report from a Panel Valuer and Confirmation by Valuation Review Panel
4. Obtaining of title clearance from the Chief Legal Officer.

e. Thereby it was observed that the bank should have long-term plans regarding the establishment of branch network of the bank and otherwise bank have to incur high cost to purchase unsuitable lands for construction of buildings.

(ii) Selection of a Consultant for Construction of a new branch building for Bank "Galle City Super I (BID No. BOC/PROP/P/2019/387)

a. The bank had not held a first meeting jointly with Procurement Committee (PC) and Technical Evaluation Committee (TEC) to agree Procurement Time Schedule (PTS), Procurement method and type of bidding document as per the Section 2.11.1 (c) of the Procurement Manual 2014 of the Bank.

b. As per the Section 2.12 (a) of the Procurement Manual 2014 of Bank, all members of PC and TEC are required to sign a declaration in the prescribed format at the first meeting. Since there was no first meeting, Deputy General Manager's memo date taken as an appointment date for TEC. However declaration was given on 28

for the bank is based on OIC No. 109/2012.

According to the circular there is no need of requesting Bid Security.

c/d/e. Relevant Business Unit prepares the long-term plans regarding the establishment of branch network of the bank.

Need to strictly adhere with procurement Manual of the Bank.

a. Noted.

b. As per the letter of CM(TS) dated 09.09.2019, the project details had been submitted to Procurement Department with his recommendation for

November 2023 after 15 days of the appointment of TEC and External consultant for procurement by the TEC and PC members. Furthermore Quantity Surveyor was involved with procurement procedure has not signed in declaration form. And also Bid Security had not been obtained as per the section 5.3.11 (a) of the Procurement Manual.

the preliminary estimate prepared by the QS.

3.5.9 Dematagoda Branch

Audit Issue

Management Comment

Recommendation

(i) Land purchase for Dematagoda Branch

On 06 November 2015, bank had purchased a land for construction of branch at Rs.108 Mn from D P J Constructions (Pvt) Ltd and following observations were made;

- a. As per the section 2.4.1 and section 2.7.8 of the procurement Manual of the Bank 2014, procurement should be recommended by the Corporate Procurement Committee and the procurement entity had not been appointed Corporate Procurement Committee for purchase of land for construction of Dematagoda branch which has a value of Rs.108 Mn. Paper advertisement for calling offers for a suitable land/ land with a building for Dematagoda Branch, placed on 28 July 2014 with the request of Assistant General Manager (Western Province North) and subsequently recommended by the Deputy General Manager (Sales & Channel Management) and Chief Manager (Properties and Procurement Department). The Corporate Procurement Committee has not involved for entire procurement process of Purchase of Land at Dematagoda contrary to the said section of the Procurement Manual.

- a. Purchase of properties is based on OIC No. 109/2012. Property Inspection Committee and Property Purchase Committee have been nominated in the circular and they scrutinized Property Purchasing Procedure and Board approval obtained accordingly.

Need to strictly adhere with procurement Manual of the Bank.

- b. As per the section 2.1 of the Official Instructions Circular No. 109/2012 dated 04 July 2012, “when there is a need to acquire a property for the Bank by purchase, the Manager/Officer concerned should refer the requirement for attention of Assistant General Manager (Province/Branch)”. However, there was no any formal request from the Branch Manager or Authorized Officer for purchase of land.

- b. Noted.

- c. As per the Section 5.6.1(a) of the Procurement Manual

- c. As per the circular No. 109/2012, the advertisement should include the terms & conditions and specifications. Accordingly, Location, extent and minimum road

2014 of Bank of Ceylon, *“The Specification for the Goods or Works to be procured shall not be defined more narrowly than it is necessary to achieve the relevant procurement objective.”* However it was observed that, the paper advertisement published by the Bank in three national newspapers on 28 July 2014 was in very brief form and it does not express the requirement specifically such as bid opening date, time and venue etc.....

frontage, required documents to submit with the offer and closing date of Offers had been mentioned in the newspaper advertisements published on 28.07.2014.

d. Noted

- d. The consent to sell the property at No.400 Dematagoda with 38 perches had been expressed by the Chairman/Managing Director of DPJ Constructions (Private) Limited to the Assistant General Manager – Western Province on 28 July 2014 and it was observed that the paper advertisement for purchase a land was published after the consent received from the company. Accordingly the necessity of the relocation of branch has been aroused after the consent given by the DPJ company and only their quotation for same land has been received for the paper advertisement which deprives the transparency of the entire procurement process.
- e. According to the Board Meeting Minutes no. 5.1 dated 02 December 2014, the Board of the Bank has not approved to purchase a land from DPJ Constructions (Private) Limited due to, the width of the road frontage is only 45 feet and the land is of the “L” shape. Later the Board of Directors granted approval on 10 April 2015 for purchase the aforesaid land from D P J Constructions (Pvt) Limited for a consideration of Rs.108 Mn subject to obtaining an approval for the relevant Survey Plan from the Colombo Municipal Council, to relocate Dematagoda Branch. Thereby it was not revealed that the reasons for reconsidered the land as a suitable location which was initially rejected by the Board of Directors due to its “L” shape and geographical location.
- f. Although as per the paper advertisement dated 28 July 2014, offer should be forwarded with title report and survey plan of proposed property, Board approval

e. Noted. Thereafter the Board of Directors has granted approval on 10.04.2015 to purchase the land.

f. Noted. Survey Plan has been approved on 30.09.2015.

granted to purchase the selected property subject to obtaining an approval for the survey plan by the Colombo Municipal Council. As per the information available for the audit the survey plan was approved on 30 September 2015 by the Colombo Municipal Council.

(ii) Selection of a Consultant for Construction of a new branch building for Dematagoda Branch.

The Corporate Procurement Committee (CPC) decided to award the consortium consultancy services for construction of a building for Dematagoda branch, Regional Loan Center and Province office for Western province for a sum of Rs.250 Mn plus taxes at tentative cost for the project. Following observations were made thereon;

- a. According to the Terms of References (TOR) of the bidding document for Consortium Consultancy selection for Dematagoda Branch the service is expected for 188 weeks. Thereby as per the Section 4.3 of Guidelines for Selection & Employment of Consultants, August 2007 published by the National Procurement Agency of Sri Lanka, Consultancy services for national experts and exceeding a period of one year, submission of qualifications shall be advertised in national newspapers. However the procurement entity has not published advertisement in national newspapers and bank had invited proposals from the registered consortium consultancy service providers of the Bank.
- b. As per the Section 4.3 of Guidelines for Selection & Employment of Consultants, August 2007 published by the National Procurement Agency of Sri Lanka, “Short list shall comprise not more than seven consultancy organizations”. However the Procurement entity invited proposals from 16 consortium consultancy service providers of the Bank.
- c. As per the Section 4.3 of Guidelines for Selection & Employment of Consultants, August 2007 published by the National Procurement Agency of Sri Lanka, the names of shortlisted organizations should be included in the letter of invitation (LOI). However, as per the Request for Proposal (RFP) the Bank had not complied with the said section.
- d. It was observed that selection process of consortium consultancy service has been unnecessarily delayed due

Need to strictly adhere with Guidelines of Selection & Employment of Consultants.

a. Noted

b. Noted. Proposals have been called from 16 consortium consultancy service providers to get the competition among the consultants and to get the maximum benefits to the Bank.

c. Noted

d. Noted

- The PE was compelled to face the obstacles arose from the unavailability of the

to followings;

- Initially appointed External Member of the TEC on 22 February 2017 was changed in several times.
 - Change of initially selected consultant of M/S Team Four Architects & Engineers to M/S Surath Wickramasinghe Associate after spending of 11 months for negotiations to obtain Professional Liability Insurance for total project cost. Accordingly more than two years period was spent for the process of selection consortium consultancy firm for construction from the board approval date of 12 October 2016.
 - Change of the scope of the project initially approved by the Board of Directors through the board decision dated 03 February 2021 which is to construct only the Dematagoda Branch with a floor area of 7,650 sq.ft at a cost of Rs.96Mn and derecognize the Regional Loan Center and Province office from initially approved scope of Dematagoda branch by including it to the scope of new building for Kiribathgoda Branch with floor area of 29,117 sq.ft. Again at the meeting held on 17 November 2021, the Board of Directors approved the revision of the scope of work with regard to the construction of new Branch Building at Dematagoda with approximate floor area of 7,650 sq.ft. at a cost of Rs.77 Mn including five executive quarters in the same building for the use of Assistant General managers who make visits to the Head Office with floor area of approximately 2,500 sq.ft. by utilizing additional sum of Rs.32.5 Mn and relevant taxes. Due to failure in proper planning process for construction of branch building and other building works, the projects have been unnecessarily drag over long period and resulted for cost and time wasting.
- e. Even though the Bank and Consultants has agreed to pay consultancy fee at each millstone as mentioned in the consultancy agreement, bank has paid significant percentage of each milestones by breaking into sub stages without substantially completion of projects in fruitful manner. The bank has already incurred Rs.4.45 Mn as a Consultancy fee payment for M/S Surath Wickramasinghe Associate which could be idle cost for the bank and bank have to incur additional cost of Rs.5.25 Mn as a consultancy fee with the change of its scope.

appointed external members and therefore, the PE ensured the continuation of the procurement process by appointing external members who were available at the said time periods.

- Noted. One reason to award the consortium consultancy services to Surath Wickramasinghe Associates was that disagreement of Team Four Architects & Engineers to provide the required professional liability insurance.

e. Noted

3.5.10 Kottawa Super Grade Branch

Audit Issue	Management Comment	Recommendation
<p>(i)<u>Purchase a land for Kottawa Super Grade Branch</u> On 23 August 2019, bank has purchased a land for construction of Kottawa Super Grade branch at cost of Rs.211.32 Mn. Following observations were made thereon.</p> <p>a. As per the Section 2.4.1 and Section 2.7.8 of the Bank's procurement Manual 2014, the procurement entity had not been appointed Corporate Procurement Committee for the above procurement which has a value of Rs.281.76 Mn. Two Paper advertisements for calling offers were placed on 26 October 2017 and 15 December 2017 with and without required specifications in detail respectively. Further there was no any documents relating to receipt of offers and bid evaluations for paper advertisement dated 26 October 2017. As per the inspection report dated 02 April 2018, inspection has been done only for four offers except one offer which was received within the stipulated time as per the second paper advertisement. Moreover, it was observed that two offers out of four offers considered for inspection were received after the closing date. The Property Inspection Committee has recommended to call valuation only for two properties. However the bank had considered only one property for the valuation. As per the valuation report of External valuer dated on 18 May 2018 and comment report of Review Panel valuer dated on 13 June 2018 the Market Value of the property was Rs.220 Mn. However, the Property Purchasing Committee meeting held on 20 June 2018 decided to call government valuation for the above property. As per the valuation department's report dated 28 November 2018, it was mentioned the market value as Rs.140 Mn which is more below the external valuer's valuation. Again the bank has called valuation from external valuer on 01 December 2018 and he has mentioned the market value as Rs.211.32 Mn for the same property. Finally the Board of Directors approved to purchase above mentioned land at Rs.211.32 Mn.</p>	<p>Noted. Purchase of properties is based on OIC No. 109/2012. Property Inspection Committee and Property Purchase Committee have been nominated in the circular and they scrutinized Property Purchasing Procedure and Board approval obtained accordingly.</p> <p>According to the Inspection Report dated 02.04.2018, an paper advertisement has been published on 05.01.2018 . Mr. R.A.D.J. Ranasinghe and Mrs. H.K. Wickramasinghe have submitted offers on 17.01.2018 and 10.01.2018 respectively.</p>	<p>Need to strictly adhere with Bank of Ceylon procurement Manual.</p>

3.5.11 Bingiriya Branch

Audit Issue

The Bank has purchased a Land at a cost of Rs.20 Mn on 14 July 2017 and selected Arch- Triad Consultants (Pvt) Ltd as a consultant for Building of Bingiriya Branch. According to the letter of AGM- Administrative Services dated on 09 February 2022, addressing AGM- North Western Province, informed to temporarily suspend the construction process based on their Cost- Benefit Analysis which was done after the purchase of the land and payment of 50 Percent of consultancy fee amounted Rs.1.86 Mn without doing such analysis prior to the land purchase. Following observations were made in this regard;

a. As per the Section 2.1 of the Official Instructions Circular No. 109/2012 dated 04 July 2012, “when there is a need to acquire a property for the Bank by purchase, the Manager/Officer concerned should informed to concerned Assistant General Manager (Province/Branch)”. However, there is no any formal request observed in the procurement file from the Manager or authorized Officer for purchase of land for Bingiriya Branch.

b. As per the Section 5.6.1(a) of the Procurement Manual 2014 of Bank of Ceylon, “*The Specification for the Goods or Works to be procured shall not be defined more narrowly than it is*

Management Comment

Construction document phase has already been completed and the CPC has approved the bidding document for selection of a contractor, as per the consultancy agreement 50% of the project cost has to be paid as the consultancy fee.

Project was deferred due to curtailment of capital expenditure as per the Ministry guidelines.

a. Bank begins property purchases on receipt of the recommendation from the relevant Business Unit and Bank follows the proper procurement process when purchasing a land. According to the Inspection report dated 7.03.2017, the request has been received from the relevant Assistant General Manager and subsequent recommendation of the Deputy General Manager (Sales and Channel Management). Relevant Assistant General Manager and the Manager of Bingiriya branch has participated to the property inspection also.

b. Location, extent,

Recommendation

Need to do feasibility study before start the project and strictly adhere to the Bank of Ceylon Procurement Manual/ relevant circulars.

necessary to achieve the relevant procurement objective.”
 However it was observed that the paper advertisement published on 11 January 2017 was more narrowly expressed the branch requirement contrary to the said section.

- c. One quotation has been received by the Bank as per the documents available in the file on 19 January 2017 and unable to verify the accuracy of bid opening process due to absence of bid opening meetings to carry out bid opening procedure and keeping records in the meeting.
- d. With the decision of temporarily suspension, the cost of Rs. 24.78 Mn incurred may be idle to the bank, if the bank decided not to continue the project further which is still pending.
- e. As per the Letter dated on 04 December 2018 from Arch-Triad Consultants (Pvt) Ltd, the work team of the company has been revised and it has been informed to the Bank. This revision has been occurred after the consultancy agreement signed by the two parties on 12 November 2018. However there was no any documentary evidence available for evaluation of revised work team of the consultant company by the Technical Evaluation Committee.

minimum road frontage, required documents, offers closing date had been given in the newspaper advertisements.

- c. Noted
- d. Noted
- e. As per the Cl. 4.3, General Conditions of Contract of Consultancy Agreement, Consultant can replace key personnel agreed for the project. These key personnel should have equivalent or better qualifications. This can be easily evaluated by the respective project engineer with the guidance of Chief Engineer.

3.5.12 Kiribathgoda Super Grade Branch

	Audit Issue	Management Comment	Recommendation
(i)	a. As per the Section 4.1.1 (c) of the Procurement Manual 2014 of Bank of Ceylon, Procurement requirements of Branches and Province Offices should be sent by the Province Assistant General Manager to Deputy General Manager for certification. The certified schedule shall be sent to Assistant General Manager in charge of Procurement. Furthermore as per the Sections 2.1 and 2.2 of Office Instructions Circular No.109/2012 of Purchase of Properties for the Bank, when there is a need to acquire a property for the Bank by purchase, the Manager/Officer concerned should inform to the concerned Assistant General Manager (Province/Branch)	a. Noted. Purchase of properties by the Bank is based on OIC No. 109/2012. The Deputy General Manager (Sales and Channel Management) has recommended to purchase of land/building for Kiribathgoda Branch. PTS has not been	Need to strictly adhere to the Bank of Ceylon Procurement Manual/ relevant circulars.

and should recommend to the Deputy General Manager (Sales & Channel Management) for the purchase of a land or building for the bank if satisfied with the reasons given. However, it was observed that the documents in connection with the aforesaid process were not submitted for audit and relevant letters were not filed in the Land Purchasing File of Kiribathgoda Branch. Hence it was evidenced that initial approval process was not complied with. Furthermore as per the Section 4.2.2 (a) of the Procurement Manual 2014 of Bank of Ceylon, Procurement Time Schedule (PTS) is a schedule describing in chronological order, steps of each individual Procurement Action, from the point of commencement until its completion. However, it was observed that Procurement Time Schedule (PTS) had not been prepared by the Bank for the purchase of a property in Kiribathgoda to construct an owned building which can be used to monitor the achievement of procurement objectives as per Section 1.2 of Procurement Manual of the Bank. The Conditions and Specifications of required land/ land with building had not been mentioned in newspaper advertisement dated on 15 December 2017 as per the Section 2.3 of Office Instructions Circular No. 109/2012 which should be determined jointly by the Assistant General Manager (Province) and Assistant General Manager (Administrative Service) and approved by the Deputy General Manager (Support Services).

- b. Although minimum main road frontage should be 45-75 feet for super grade branch as per the Section 1.1 of the Design Guideline for BOC branches, the advertisement had been mentioned it as 35 feet road frontage. Although minimum plot requirement for single storied building and two storied building is 63 perches and 51 perches respectively, contrary to that advertisement has mentioned it as 25-40 perches. Bank had not confirmed the requirement of hazard free Zone by doing Soil Investigation. Bank had not appointed Corporate Procurement Committee (CPC) for this procurement as per the Section 2.4.1 and Section 2.7.8 of the Procurement Manual 2014 of the Bank.
- c. According to the bank's information, an only one offer had been received with relevant documents by register post on 19 December 2017 and unable to verify the accuracy of bid opening process due to absence of bid opening

defined in OIC No. 109/2012 when purchasing properties to the Bank.

- b. Noted. Purchase of properties by the Bank is based on OIC No. 109/2012. Location, extent and minimum road frontage had been given in the newspaper advertisements.
- c. Noted

meetings to carry out bid opening procedure and keeping records of the meetings. The selection committee had scrutinized the inspection report and decided that the aforesaid land is suitable to purchase for Kiribathgoda branch. Since only one offer was received, that offer was selected without any competition.

(ii) Selection of Consultant to construction of a new branch building to locate Kiribathgoda Branch

- a. According to the Section 2.4.2 and 2.4.3 of Sri Lanka Guidelines for Selection and Employment of Consultants, selection of a consultant for the consulting services should be done as an independent procurement following the procedures and through the appropriate Consultants Procurement Committees(CPC). The Bank has mentioned that the Quality and Cost Based Selection (QCBS) method was applied as per the RFP document for selection of the consultant with the recommendations of both Technical Evaluation Committee and Procurement Committee. However the Bank had not followed proper procedure to select consultant for construction of Kiribathgoda Branch. Although the QCBS is appropriate and the process of selection had mentioned clearly as per the Section 3.8.1 and 3.8.2 of Sri Lanka Guidelines for Selection and Employment of Consultants, the bank has not followed the instructions.
- b. According to the, details for preparation of cost estimates in consulting service, the bank is determining estimated percentage of contract sum as the consultancy cost without following Section 3.4 of Sri Lanka Guidelines for Selection and Employment of Consultants which will adversely impact when increasing of project cost due to delays and scope changes from initially estimation. Accordingly, the estimated cost had been increased to Rs. 450 Mn with solar panel system and various scope changes. However the contractor has not been selected yet for the construction works even the land had already been purchased on 28 February 2019.

a. Noted

b. The scope of constructing the Kiribathgoda Branch, were revisited on 20.02.2020 and it has been decided to construct WPN Province Office and Regional Loan Center at Kiribathgoda Premises.

Accordingly, approval of the Board of Directors has been obtained on 03.02.2021 to construct the branch building consist of Regional Loan Centre and WPN Province office with floor area of approximately 29,117 sq.ft. by utilizing a sum of Rs.312Mn.

(excluding Taxes) for Bank of Ceylon Kiribathgoda Branch.

Due to pandemic/economic situation prevailed in that period, travel restrictions, quarantine curfew, scarcity of fuel, country lockdowns and regular power interruptions the Bank decided to defer the project by prioritizing the needs of the Bank.

3.5.13 Land purchase for Ganemulla Branch

Audit Issue

On 15 July 2019, the bank has purchased a land for construction of Ganemulla Branch at the price of Rs.69.54 Mn. As per the Section 4.2.2 (a) of the Procurement Manual 2014 of the Bank, Procurement Time Schedule (PTS) had not been prepared by the Bank to monitor the achievement of procurement objectives as per Section 1.2 of Procurement Manual. Bank had not initiate the construction process even the land had been purchased almost 04 years back as a bank requirement of relocate the branch according to the letter of Assistant General Manager (Western Province) dated 16 November 2018 addressing to Assistant General Manager (Province Sales and Channel Management).

Management Comment Recommendation

Due to pandemic/economic situation prevailed in that period, the Bank decided to defer several construction projects by prioritizing the needs of the Bank. Need to strictly adhere to Bank of Ceylon Procurement Manual.

3.6 Human Resources Management

Audit Issue

Management Comment Recommendation

- (i) It was observed that out of corporate level vacant positions, Chief Information Officer who is the head of the IT division is at vacant as at 31 December 2022 and since it is a major position of determining the bank's performance, bank cannot keep vacant of such position.
- As at 31.12.2022 there was only one DGM position vacant that was CIO, after a series of calling applications and interviews for the CIO position, Mr. K B N Seelanatha assumed duties as CIO in the bank w.e.f 04.09.2023.
- Major positions of determining the bank's performance need to be filled with immediate effect of vacant. Thereby bank should have revised succession plan to accommodate such instances.
- (ii) The Bank had transferred 04 banking stream employees to nonbanking stream positions at Network Operation Centre (NOC) in 2021 and 2022 based on the Human Resources Policy Committee (HRPC) approval on 26 October 2021 contrary to the Scheme of Recruitment (SOR). Employees who were transferred to the NOC on temporary basis for 03 months are still working at IT division as at the date of audit on 08 August 2023 by extending their assignment period for 15 months in three times by 06 months, 6 months and 03 months respectively on the request of AGM- IT.
- Furthermore, as per the Information Security Policy (ISP) of the bank, any higher level authority should be obtained for granting Network Administration User Access to the employees since this involves high risk. However, the Network Administration User Access had been granted to the aforesaid temporarily transferred employees were observed.
- a. In the meantime, bank decided to recruit System Analyst I to the bank for the shortage of staff in IT Division. However, due to Covid -19 impact & situation in the country 2020, 2021 & 2022 such recruitment was delayed & ultimately we were able to select only 7 System Analyst Grade I.
- Later in order to meet the shortfall of staff another recruitment was carried out in 2022 and called applications internally from the banking stream.
- The HRD extended their temporarily assignment period as requested by the AGM(IT) by the letters
- User access is granted by IT Department and above staff members have performed in NOC even though transferred on temporary basis.
- Need to strictly adhere with SOR and transfer policy.
- Need to recruit permanent staff to make responsible of act for the best interest of the bank rather than temporarily basis.

The NOC staff has the responsibility of responding to alerts as soon as possible. As a result, NOC staff was unable to respond to alerts generated by the SOC without the necessary authority to access and update network devices.

- (iii) - It was observed that the bank had incurred Rs. 3.53 Mn cost per employee in 2022 and it indicates Rs.0.53 Mn or 17.67 percent increment comparing to the preceding year. When it compared with last four years, per employee cost has been gradually increased over year by year although the number of staff was gradually decreased. The profit generated per employee was Rs. 3.89 Mn for the year 2022 and it indicates Rs.0.62 Mn or 13.75 percent decrease comparing to the preceding year.
- Personal expenses as a percentage of net operating income of the bank was recorded 32.36 percent for the year 2022 which has been increased by 5.75 percent compared with preceding year.

1.As per the movements published by Colombo Consumer Price Index (Base 2013=100) in the December 2022, Year on Year Inflation recorded as 57.2%. The Cost of Living of the Employees salary is adjusted as per the movements of CCIP and increased the salary cost accordingly.

Need to use the bank funds increasing the efficiency and effectiveness of employees.

2.Trainee Staff Assistants who recruited on August 2018, were confirmed after August 2021. Accordingly, the Bank has to bear the additional staff cost (Salary adjustment with confirmation, Statutory contributions, Leave Encashment, other personal cost, etc) in the year 2022 compared to year 2021.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Issue

The progress achieved for selected target activities of the Bank as per the Corporate Plan prepared for 2022 – 2024 are given below.

Objective	Status as at 31.12.2022	Observation	Management Comment	Recommendation
<u>Stability, Governance and Sustainable Growth</u>				
Maintain cost of funds (COF) in line with the budget COF 2022 – 6.64%	COF -18.33%	COF increased.	Bank COF has reduced to 15.48% against the budget of 17.47% in September 2023, through the reduction of borrowing cost and the repricing of deposits at lower interest rates.	Need to take all possible measures to achieve Budgeted COF.
Customer Centricity				
Achieve 10% growth in Bank's High Net Worth (HNW) and 'A Graded' customer base (base year- 31/12/2021)		Growth %	Negative growth rate over the year 2022.	Need to take all possible measures to achieve Budgeted growth.
	No. of A Graded Customers	(7)		No. of customers who bank with BOC for 10 years and more increased by 3.39% from 30.06.2023.
	No. of Prime Customers	(13)		Total Deposits Exposure of HNW Customers is also affected due to COVID - 19 Pandemic and Economics crisis in the country in 2021 & 2022. As a result of the economic crisis on 2022, there was an increasing trend in interest rates which
	Total Deposits Exposure of A Graded Customers	(14)		
	Rs.in Mn	(14)		
	Total Deposits Exposure of Prime Customers	(8)		
	Rs.in Mn	(8)		

<p>At least 75% of loans are maintained at specified Turn Over Time(TAT); Personal loans – 02 working day Leasing – 01 working day Housing loans – 14 working days Commercial loans – 25 working days</p>	<p>Not updated actual achievement.</p>	<p>actual</p>	<p>Not updated actual achievement.</p>	<p>cannot afford by the businesses. Hence, the expected growth has not been achieved.</p>	<p>Personal Loans Nearly 70% of the loans have been granted within two working days.</p>	<p>Need to take all possible measures to achieve Budgeted efficiency ratio.</p>
				<p>Leasing Nearly 77% of the leasing have been granted within one day. Branches are advised to improve the TAT.</p>	<p>Housing Loans and Commercial Loans</p>	<p>There are no records available regarding the TAT up to 2022. Central Credit Operations Department Manually calculated the TAT for Housing Loans and Commercial Loans granted by Regional Loan Centers from 2023. As per that records (January to October 2023) 28% Housing Loans and 61.8%</p>

Commercial Loans are maintained within TAT. Central Credit Operations department is continuously doing awareness programs and Special discussions with RLC Managers and staff to increase the TAT Performance at least 75%.

Rewarding Credit Culture and Healthy Credit Portfolio

Increase the loan portfolio	Loan Growth -0.1%	Not achieved the targeted loan growth.	Credit growth were affected during 2022 due to instructions were given to branches to curtail the advances due to liquidity and capital adequacy concerns. Due to the adverse economic conditions bank was not able to achieve the budgeted loan growth during the year.	Need to take all possible measures to achieve target Loan growth.
- Loan growth of 31/12/2022 - 14%				
Be the market leader in SME sector by 2023(Grow SME loan portfolio by 20% annually.)	SME growth- (19.6)	Negative growth.	Due to high interest rates prevailed in the market, the demand for SME loans were low.	Need to take all possible measures to achieve Budgeted growth.

Further, economic condition of the country is not conducive for the businesses. The SME sector is the most affected sector to the economic crisis on 2022. Fuel shortage, power shortage, import restrictions and the high inflation directly affected to the SME sector.

<p>Establish strong internal controls over credit granting and monitoring - None of the new loans granted transfer to NPA within first 6 month period</p>	<p>New facilities transferred to NPA (Granted in 2022) Corporate- 1.17Bn</p>	<p>not achieved the target during the year 2022.</p>	<p>Bank has not achieved the target overall loan growth during the year due to Instructions were given to branch network to curtail credit growth during the year, due to liquidity and capital adequacy concerns. The approval of the Corporate Management Committee was obtained on 25.05.2022 to implement a mechanism to report and evaluate the</p>	<p>Need to take all possible measures to achieve Budgeted objective.</p>
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			facilities considered as NPCFs in 1 st 6 months of the date granting on a monthly basis.		
Enrich the existing credit evaluation and monitoring process with new concepts and mechanisms – independent assessment to be taken for above Rs. 5 Bn loan.	An independent assessment mechanism was not introduced.	Bank was unable to Strengthen the credit evaluation and monitoring process due to unavailability of proper mechanism.	Comments Noted. Loan Review Mechanism policy is available to review the Loans approval, accuracy of security documentation, Legal Officer Confirmation, accuracy of interest rates and repayment period, conduct of existing facilities, sufficiency of cash flow routed through BOC accounts and adherence of special convents/commen	Need to take all possible measures to achieve new mechanism above Rs.5Bn loans.	
Bring down existing Non Performing Advances(NPA) by 1% from the existing percentage as at 31/12/2021	NPA-Ratio 31.12.2021- 5.10% 31.12.2022 – 5.31% Stage III – 31.12.2021–Rs.251Bn	Increased NPA.	Recovery Corporate Division has taken steps to arrest the	Need to take all possible measures to achieve Budgeted statistics.	
Reduce the absolute value of stage 3 loans as at 31/12/2021 by 25%	31.12.2022 - Rs.325Bn	Increased Stage III loans.	position.		
Maintain collection efficiency ratio above 90%	Collection efficiency 70.89%	Not achieved targeted ratio.			

4.2 Budgetary Control

Audit Issue	Management Comment	Recommendation
According to the variance analysis between Actual and Budget, negative trend of 13.64 percent was recorded in Net Profit while positive trend of 55.39 percent was recorded in total income during the year 2022.	Comments Noted.	Need to closely monitor the bottom line of financial and manage significant gaps strategically.