

NSB Fund Management Company Limited - 2019

1.1 Opinion

The audit of the financial statements of the NSB Fund Management Company Ltd for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity and cash flow statement 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.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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

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

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 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 skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Company'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 Company 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 Financial Statements

1.5.1 Unauthorized Transaction

Audit Issue

In accordance with paragraph 2.8 of the Public Enterprise Circular No.PED 3/2015 dated June 17, 2015, monthly allowance, sitting allowance or any other payments other than allowances mentioned in the circular, can be paid to the chairman only with the recommendation of the secretary to the line ministry with the concurrence of the Minister of Finance. However, a sum of Rs. 53,195,450 had been paid to the Chairman of the NSB Fund Management Company as a professional allowance for the period from January 2015 to November 2018, without obtaining prior written approval according to above circular. Chairman of the National Savings Bank has act as the chairman of the company by an official power.

Management Comment

No allowance was paid in 2019 after the said circular was brought into notice. Remuneration policy for Key Management Personnel has been prepared and submitted to the Board Human Resource and Remuneration Committee (BHRRC) and Board of Directors of NSB Fund Management Company for its approval.

Recommendation

The company should comply with the Public Enterprise Circulars.

1.6 Accounts Receivable and Payable

Audit Issue

The Company was appointed as a lead manager for reorientation of Sri Lankan Airlines project in the year 2016 by the Cabinet of ministers. In this regard, receivable balance from the treasury was Rs.246,939,587 and out of such balance, an amount of Rs. 88,939,587 had remained outstanding as at the end of 2019.

Management Comment

Company received Rs.158 Million on 31.12.2019 after making many requests to the ministry. Further the Company sent request in February 2020 to settle the balance.

Recommendation

Take necessary actions to recover the due to the company.

2. Financial Review

2.1 Financial Result

The profit for the year under review amounted to Rs.515,409,392 compared with the corresponding profit of Rs.35,500 in the preceding year. Therefore, the financial result had been increased by Rs.515,373,892 or 1,451,757 per cent in the year 2019. The reason for the improvement was increase of fair value of financial instruments due to favorable movements of market interest rates.

2.2 Trend Analysis of major Income and Expenditure items

The Interest income of the company had increased by Rs 183 million or 14 per cent as compared with previous year mainly due to increase the value of higher interest-bearing securities. The interest expense had also increased by Rs.129 million or 14 per cent due to increase of borrowing portfolio of the company. Fee income has increased by 8 million or 17 per cent in 2019 due to expansion of fee-based income activities mainly improvement of trustee activities. Company has recorded a trading profit of Rs.472 million in 2019 compared with the trading loss of Rs.355 million incurred in 2018 due to favorable movements in the market interest rates. Personal cost has decreased by Rs.8 million due to non-payment of professional fees during the year 2019 compared with previous year.

2.3 Ratio Analysis

Following observations are made in some important accounting ratios of the company for the year under review as compared with previous year and sector ratios.

Descriptions	Sector Ratio	Bank	
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		2019	2018
		-----	-----
Return on Average Assets (ROA)	6	4.78	0.02
Return on Average Equity (ROE)	28.5	17	0.002
Risk Weighted Capital Adequacy	27.6	27.88	24.65

(Sector information was taken from Central Bank Website)

- (i) Risk weighted Capital Adequacy Ratio of the Company is higher than the sector ratio, and had increased by 3.23 per cent compared with the financial year 2018.
- (ii) Return on Average Assets ratio and Return on Average Equity Ratio of the Company had increased by 4.76 percent and 17 percent respectively in 2019 compared with the year 2018.

(iii) The Core Capital of the Company had increased by 23 percent from Rs.2,723 million in 2018 to Rs.3,337 million in 2019. It was above the minimum core capital requirement of Rs.1,000 million. The core capital has increased due to increase in retained earnings Rs.386 million during the year under review.

3. Operational Review

3.1 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
Bonus for the year 2018 amounting to Rs.2,543,546 had been approved by the board of directors in its meeting held on 02 November 2018. However, the profit after tax for the year 2018 was Rs.35,500 and provision for the aforesaid bonus had been made in the financial statements of 2019 instead of the financial statements of 2018.	Normally, Company paid the performance bonus to the staff in accordance with Bank's performance bonus payment method. However, Company has proposed in the Board Human Resource and Remuneration Committee (BHRRC) to pay performance bonus based on the performance of the company.	Performance bonus policy of the company should be in line with the profit for the year under review.

3.2 Human Resource Management

Audit Issue	Management Comment	Recommendation
a) Approved cadre has not been determined as per the paragraphs 9.2 and 9.3 of the chapter 9 of the Public Enterprise Circular No. PED /12 of 02 June 2003 and the Company does not have a scheme of recruitments of employees.	Noted	Company should have an approved cadre and scheme of recruitments.
b) An officer who had been recruited to the NSB Fund Management Company for the post of Secretary under contract basis with effect from 02 March 2018 had since been attached to a branch of the National Savings Bank.	The said employee had been re-called the NSB Fund Management Company's head office.	Company should effectively use the employees who have recruited for the company's requirement.