

# **Presentation on Audit Findings**


## **Annual Audit 2012/13**

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# Presentation Background


**This presentation is carried out so as to give an idea of the significant observations made during the audit of financial statements of the Company in order to identify the risk areas and assess the degree of reliability of the financial reporting system for the statutory audit -2012/13.**




# Important

- ▶ We commenced our statutory audits on January 14<sup>th</sup> and all branch interim audit reports were submitted by 18<sup>th</sup> March except those of the Head Office, Treasury Division & the Internal Audit Division.
  - ▶ In future it is important that your explanations are given then and there.
  - ▶ The presentation is not on a critical note and comprise of a constructive view to improve the financial reporting system of the company.
  - ▶ We have not included all the points reported in the management letters but included those we felt were relevant and critical.
  - ▶ Since this is a summary of main observations we made in general we recommend that all detailed reports should be forwarded to the respective units and written explanations should called and considered by the management.
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# Our Objective

- ▶ Objective of the Statutory Audit is to obtain reasonable assurance that the annual financial statements shows a true and fair view of the state of affairs of the company.
  - ▶ However **not** for the purpose of expressing an opinion on the effectiveness of the entity's internal controls.
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# Key Areas of Focus

- ▶ 1. Misstatements identified
  - ▶ 2. Insufficient supporting evidence to form an opinion
  - ▶ 3. Internal control deficiencies identified
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# **A. Misstatements Identified**



# I. SLFRS/LKAS requirements were identified but was not implemented in certain areas

**Affected branches-** All

**Reason-**

- ✓ Recommendations for a “Gap Analysis Report” not adhered to
- ✓ The entire process was carried out with a short term focus
- ✓ Lack of involvement by the IT division

**Effect**

Public deposits are not presented according to the SLFRS SYSTEM Reports but created according to the previous GAAP.

Auditors unable to confirm the conversion process.

**Recommendations -**

- ✓ Select an “SLFRS conversion team” and allocate the responsibility of converting each area prescribed in the “Gap Analysis Report” to members of the team.
- ✓ Involve system administrators in the conversion process

# II. Impairment of non-current assets - not recognized

**Affected branches- All**

**Reason-**

- ✓ The present financial reporting system does not facilitate the assessment of impairment.
- ✓ The impairment policy was not drafted even till the last stages of the audit.

**Recommendations -**

- ✓ Upgrade the IT system to record and review the recoverable amounts of individual assets.
- ✓ Instruct all branches to use the Fixed Assets module in the IMAS system to maintain registers of PPE after introducing more systems controls to follow up codes.
- ✓ Appoint a responsible officer from each branch/division to guarantee its accuracy of its' carrying value.



# III. Unreconciled account balances in treasury

## **Affected branches- All**

### **Reason**

- ✓ Unavailability of approved treasury management policies and procedures
- ✓ Lack of supervision (i.e.- responsible officers to prepare regular reconciliations and provide feedback to the Board of Directors who have the ultimate authority for good governance
- ✓ no accounting control (system or manual) which ensure all suspense accounts are reconciled before extracting monthly/ annual Trail balance.

### **Recommendations -**

- ✓ Introduce new Treasury management policy and procedures to ensure control accounts are reconciled on a daily basis and company funds are managed efficient

# IV. Unreconciled Head Office/Branch current account balances

**Affected branches- All**

## **Reason**

- ✓ Unavailability of a centralized branch control division .
- ✓ Lack of supervision (i.e.-responsible officers to prepare regular reconciliations and provide feedback to Board of Directors who have ultimate authority for good governance)
- ✓ No accounting controls (system or manual) to ensure that all suspense accounts are reconciled before extracting monthly/annual trail balance.

## **Recommendations -**

- ✓ Introduce a mechanism to identify errors and carry out the necessary corrections under a single centralized authority.

## **B. Lack of Evidence to Form an Opinion**

# I. Significant information not available for verification


- ✓ Credit manual
- ✓ Accounting procedure manual
- ✓ IT systems manual
- ✓ A file containing approved copies of memos issued to branches
- ✓ A file containing the correspondence with Central Bank

## **Recommendations –**

- ✓ Develop a company procedure manual/IT system manual describing a course of action, responsible persons and security measures related to each operation and document
- ✓ Appoint a responsible person to negotiate affairs of the Central Bank, so that all correspondence will be available in one place

# Significant information not available for verification *Cont,*

## **Recommendations –**

- ✓ Introduce a log book to report all systems failures and corrective actions which can be referred by Auditors.
  - ✓ A register of file movement to be maintained indicating the location of files and current status of affairs.
  - ✓ Implement systems Real Estate module to keep track of all information related to the Inventory property including the latest valuation.
  - ✓ Introduce a mechanism to obtain market value changes in the Real Estate property to ensure that companies incur minimum losses on holding.
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## **II. Dysfunction of the savings deposit module and the unavailability of detailed lists for verification**

### **Affected branches-**

All

**Reason-** IT system malfunction (as reported by branch staff)

### **Recommendation-**

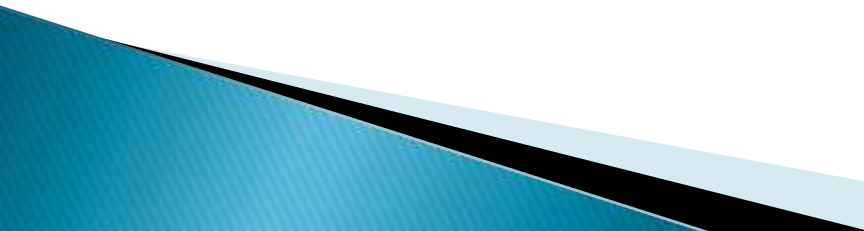
- ✓ Introduce a “system failure log book” at each branch.

# III. Market value changes in Real Estate stock and Economic obligations for further development of Real Estate stock not available in system

**Affected branches-** All

**Reason-** limitation in the present financial reporting system

**Recommendations -**

- ✓ Upgrade the Real Estate system to provide accurate and timely information for financial reporting in line with LKAS 2
  - ✓ Introduce system Real Estate module or better manual controls to follow up trend of land prices & variance analysis of each project
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## **C. Internal Control-Accounting**





# I. Property, Plant and Equipment

Company does not use a fixed asset module to maintain records of Property, Plant and Equipment and keeps records manually, in spreadsheet format which is highly exposed to accidental changes and alterations.


## **Effect**

- ▶ The company does not possess a complete list of assets owned by it, and has not been able to carry out physical verification to identify duplicate records and damaged and idle items that are required to be adjusted in the financial statement.

# I.II Physical Verification of Assets

- ▶ According to the information we gathered during the course of our audit, branch did not physically verify fixed assets in the considerable time period.


## **Effect**

- ▶ Neither has it been able to assess impairment of assets as required by the Sri Lanka Accounting standard which may have a significant effect on fair presentation and application of accounting standards.
  - ▶ Also it is possible that non-existing assets to be recorded when cash shortages occur.
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## II. Bank and Cash

- ▶ Bank reconciliations were not checked or approved by a responsible officer.
- ▶ Bank reconciliations are not prepared by some branches (including treasury).
- ▶ It is a good practice vital for survival and should ensure Bank accounts are properly maintained and reconciled on a periodical basis and responsible persons are appointed to supervise.

### **Effect**

- ▶ Weaknesses in fund management may result in manipulation of accounts and it can be used to cover up frauds and errors/shortages.
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*Thank you*

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