

AUDIT COMMITTEE REPORT

The Board Audit Committee (BAC) proceedings were based on the Charter and Terms of Reference adopted by the Board of Directors for the functioning of the Committee.

During 2008, BAC paid special attention to the following:

1. Further strengthening of the Risk-Based Internal Audit approach to identify various risks faced by the Bank and to ensure proper management of risks by placing special emphasis on the audit methodology for pre-audit risk assessment and audit planning.
2. Training of Audit Officers to equip them with the knowledge required to conduct Risk-Based Internal Audits, Information Systems Audits and audits in other specialised areas such as Treasury Operations, International Banking etc., providing them an opportunity to participate in programmes organised by the Bank's Staff Training College and other organisations.
3. Ensuring regular Follow-up of Audit findings by the Internal Audit Department until the deficiencies were rectified.
4. Assisting branches to improve their Audit Gradings/ Performance Standards.
5. Reviewing the financial reporting process in compliance with the financial reporting requirements under the Statute.
6. Examining the system of internal controls and management of business risks.
7. Reviewing the External and Internal Audit processes.
8. Reviewing the procedures in place for monitoring compliance with laws, regulations and in particular Central Bank guidelines and Basel II requirements.
9. Liaising with the Chief Internal Auditor and SDGMM/ DGMM/Heads of other functions to identify key accounting and control issues and resolve those with the primary objective of establishing an adequate control environment and ensuring presentation of Financial Statements that provide a true and fair view of the financial results of the Bank.

The Internal Audit functions were directed at identifying business risks i.e., credit risks, operational risks, market risks etc., faced by the Bank and preventing/mitigating the effects of such risks and communicating and encouraging best practices and positive quality assurance throughout the Branch Network.

The Board Audit Committee held eleven (11) meetings during the year to review the progress of Internal Audit functions, efficiency and effectiveness of controls to manage risks.

Internal Audit was also involved in reviewing of operations under the Core Banking System (Silverlake Integrated Banking System) to ensure the adequacy of controls. Similarly it was also involved in reviewing adequacy of controls in high risk areas such as Treasury Operations, Corporate and International Banking.

The Committee noted the strong commitment of the Internal Audit Department to make continued progress in improving efficiency and effectiveness of its functions. It completed 520 audit assignments, exceeding the target of 460 set for the year 2008. Significant improvements were noted in strengthening controls to contain losses by early detection and rectification of weaknesses in the systems through regular follow-ups.

The Board Audit Committee observed that 96% of branches audited had received satisfactory/average audit ratings in 2008, compared to the target of 94% set for the year in the Strategic Plan 2004-2008.

The BAC was pleased that the Bank was able to implement a recruitment & promotion scheme for Internal Audit Officers. Continued training and professional development programmes provided to Internal Audit Officers and the availability of a number of professionally qualified/experienced Audit Officers in the department also have contributed to improve the quality of Internal Audit function and performance ratings of branches.

We wish to place on record our appreciations of the valuable comments and observations made in the reports of the Auditor General.



R.A. Jayatissa
Chairman
Board Audit Committee

12th March 2009