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FINANCE DEPARTMENT POLICY & PROCEDURES MANUAL

Version III

Owner- Finance Department

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FINANCE DEPARTMENT PROCEDURES & POLICIES MANUAL

1. INTRODUCTION

This Manual has been formulated to acquaint officials in the grade Senior Managers and above on the policies and procedures adopted to maintain the books of the Company to comply with the requirements of the Sri Lanka Accounting Standards (SLAS) Sri Lanka Financial Reporting Standards (SLFRS) and the Directions (Reporting Requirements) of the Monetary Board of the Central Bank of Sri Lanka (CBSL). This Document depicts the support and coordination that needs to be extended by the aforesaid officials towards effectual functioning of Finance Department of the Company.

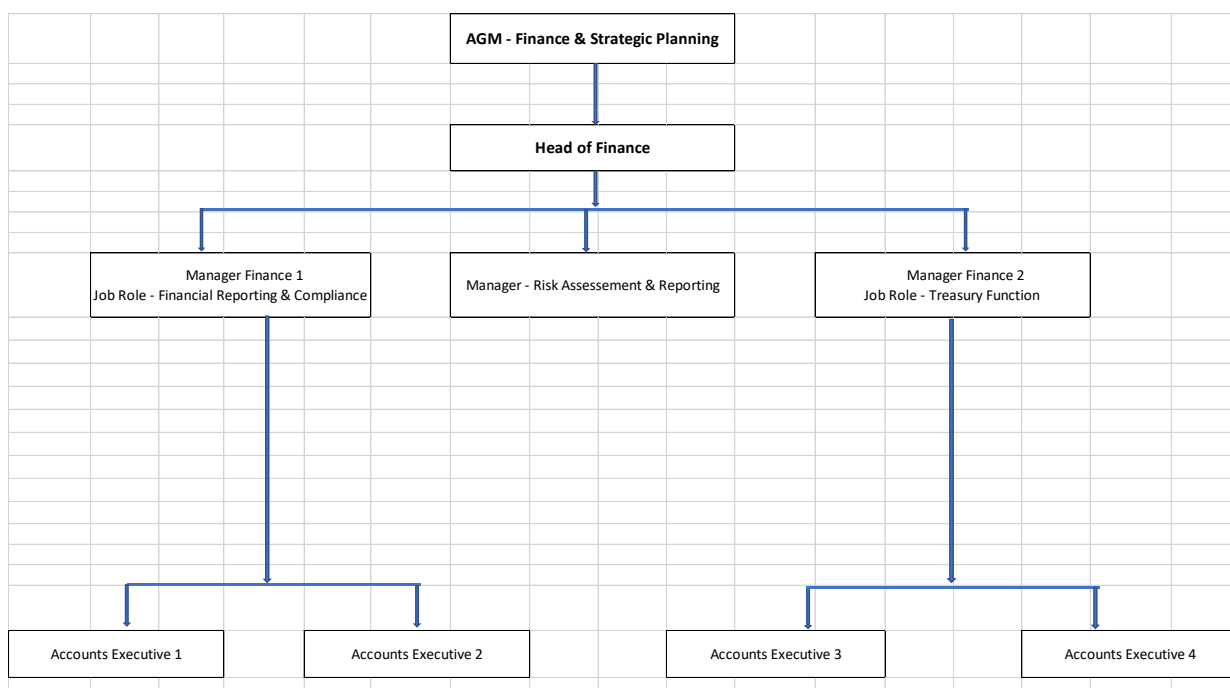
This Manual should be used in conjunction with “Procurement Policies and Procedures Manual”, “Outsourcing Policies and Procedures Manual” and “Credit Policies and Procedures Manual”, “Cash Operations Manual” IT Policies & Procedures Manual” “Fixed Assets Operations Manual” which empowers the AGM Finance to execute specific payments subject to appropriate terms and conditions. Therefore, any ambiguity on matters relating to payments not covered in this Manual should be referred to CEO/ Executive Director for a decision.

E-Finance system used by the company is currently operated in a centralized on line environment and as the company envisage to bring the Branches online (Centralized IT Environment) operational improvements due to such conversion should contribute towards simplifying operations and enhancing the efficiency of the Finance Departments. Where appropriate this Manual should be updated to incorporate such IT related requirements by the AGM Finance in consultation with Head of IT if the need arises.

As company listed in the Colombo security exchange their requirements that should handle by the Finance department are also built into this manual

2. FINANCE DEPARTMENT STRUCTURE

(To be developed to meet requirements arising in relation to our expansion)



This manual consists of four sections devoting a section for each of the above divisions as follows: -

Division	Activities
Accounts	Finances & Reporting
Payments	All payment activities
Cash	Cash control Activities Manual Operations already Circulated

**SECTION 1 –
ACCOUNTING & REPORTING
GENERAL LEDGER AND MONTHLY ACCOUNTS**

3. GENERAL LEDGER (GL)

The general ledger is maintained in the E Finance system and ledger is updated via on-line processes. Transactions pertaining to Payments, Receipts, and Banking are handled online in the GL system. In addition, transactions generated from Deposits, Credit modules are updated online on a daily basis. Entries pertaining to Company Vehicles, disposal entries are also updated off line.

Accounting Officers in charge of the relevant sub-modules should satisfy themselves of the reasonableness of data uploaded through such sub-modules. Data Entry for a month should be completed by the last day of the month end and GL processed on the same day. Any change in regard to the processing date in a given month will be notified by AGM Finance. Once the processing is completed, monthly Trial Balance, Income Statement and Statement of Financial Position should be obtained from the system.

A sub-system is in place to generate detailed accounts, monthly, quarterly & annual accounts and such statements are finalized based on such detailed accounts prepared in the sub-system

IMPAIRMENT ENTRIES

Impairment entries pertaining to the lending portfolio as required under LKAS/SLFRS are incorporated in to the GL and records are kept of same. Instead, the GL is updated in regard to time based provisions for bad & doubtful debts (NPLs) and interest in suspense as per CBSL directions. When financial statements are prepared as per LKAS/SLFRS, impairment impact should be adjusted & provisions as per CBSL procedures are reversed.

4. ACCOUNT CODES

Account codes (GL codes) are allocated on a structural basis and allocation of such GL codes should be controlled through a designated Accounting Officer to eliminate unnecessary crowding of such codes and to continue to maintain such structure. Opening of new GL accounts should be subject to the prior approval of the AGM Finance to ensure effective control.

5. JOURNAL VOUCHERS

Journal entry preparation, checking & approval are done online. Subject official should prepare the journal entry indicating the respective accounts to be debited or credited. Each journal entry must carry a short but adequate narration pertaining to

the transactions. After initial data entry, the Journal Entries should be routed for first approval by the Executive in charge. Upon approval of the journal entry by the Executive Officer, it should be routed for final approval. Final approval should be performed by Unit Head/ Head of the Department.

The System facilitates to obtain a print out of the entries. Officers preparing, checking and approving Journal vouchers as above should exercise due care and caution to ensure that all entries are accurate and essential. Accordingly, journal entry approval process can be summarized as below.

- | | |
|-------------------------------|---------------------------|
| (a) Journal Entry preparation | - by the Subject official |
| (b) Approval | - Head of Department |

6. MONTHLY MANAGEMENT ACCOUNTS

Monthly management accounts should be prepared by the designated Officer under the direction of AGM Finance for submission to the Board of Directors. A monthly management information folder consisting of documents generated should be forwarded through the CEO/ Executive Director who will authorize the Board Secretary to forward such reports to the Directors one week before the scheduled date of the Board meeting. (Copies should also be provided to CEO/ Executive Director, DGMs)

7. OTHER MANAGEMENT INFORMATION REPORTS

7.1. Branch Accounts & Management Information

7.1.1.Branch Performance Report

A Monthly Branch Performance Report should be prepared for presentation to the CEO/ Executive Director, Deputy General Manager, Heads of Departments and Branch Managers. These reports consisting of the following should be forwarded one week before the scheduled date of the meeting via Email to the Officer concerned by the Secretary to the committee.

THE REPORTS

- 7.1.2 Branch Business Report: Monthly/Year-to-date performance of Lending, Deposit Mobilization, and any other new business with comparative figures.**
- 7.1.3 Branch Cash Collection & NPLs Report: Monthly/Cumulative Branch performance with comparative figures and relevant Ratios for Cash Collections, Provision for Bad debts, and Interest in suspense & Non-performing Loans**
- 7.1.4 Expenditure Report: Statement of Monthly/Cumulative Branch Administration, Selling & Distribution Expenditure compared with budget, and same period in last year.**
- 7.1.5 Branch Profit & Loss Account: Monthly/Cumulative profit and loss account – Branch, region and cluster wise compared to budget**
- 7.1.6 Branch Management Review Meeting Presentation (BMRM)**

Power Point presentations are prepared for monthly Branch Management Review Meetings (BMRM) in accordance with the agenda specified by the CEO .Executive Director should be circulated to the participants at least three days prior to the meeting.

7.1.7 Branch Ranking &Grading

A summary of month-on-month branch performance rankings (BPI Analysis), categorized as Top, Average & Weak should be presented. Based on the following.

1. Profit per Employee
2. Revenue Per Employee
3. Monthly average credit volume per employee.
4. Deposit base growth per employee
5. NPL per Employee (Contracts over 6 rentals in arrears)

7.2 Reports to the Board of Management

Required Monthly Reports and Statements should be forwarded to CEO /Executive Director for inclusion in the Management Information Folder of the Management Committee. by the date indicated by him.

7.3 Cost/Profit Centre Accounts

Cost/Profit Centre accounts should be prepared on a monthly basis by the designated officers covering the relevant cost/profit centers at Head Office.

8 REPORTS AND STATUTORY RETURNS TO BE FURNISHED

8.1 Central Bank of Sri Lanka (CBSL)

All reports and statements to be submitted to CBSL should be sent to Head of Compliance and Head of Internal Audit for their checking and should be obtained their validation in writing prior to the submitting by finance department in the FINNET of CBSL.

All online reports should be approved by AGM Finance & Strategic Planning or Head of Finance.

All FIU reports are submitted by compliance officer by coordinating with IT department

Monthly and Quarterly returns should be submitted 1 to 3 days before the due dates to avoid last-minute connectivity issues and congestion.

All other returns and requests for information should be complied with under the hand of the CEO/ Executive Director.

8.2 Monthly Returns

On-line Returns to the Dept. of Supervision of Non-Bank Financial Institutions

(DSNBFI)

Following on-line returns should be submitted to CBSL monthly before the due dates shown below.

- a) Statement of Financial Position (NBD-MF-01-SOFP)
- b) Statement of Comprehensive Income (NBD-MF-02-SOCI)
- c) Maturity Gap Analysis (NBD-MF-10-GA)
- d) Interest Rate Sensitivity (NBD-MF-11-IS)
- e) Liquid Assets (NBD-MF-04-LA)
- f) Rates of Interest/Deposits (NBD-MF-06-ID)
- g) Product wise Classification of Loans (NBD-MF-23-C1)
- h) Product wise Classification of Loans (NBD-MF-23-C2)
- i) Product wise Classification of Loans (NBD-MF-23-IA)
- j) Classification, Recognition and Measurement of Financial Assets (NBD-MF-22-IP)

8.3 Other monthly returns

8.2.1 Monthly Statements to the Dept. of Economic Research of Central Bank
Following statements in the prescribed format should be forwarded monthly to the Director, Dept. of Economic Research of the Central bank of Sri Lanka to reach him on or before the last day of the following month.

- a. Statement of Assets and Liabilities.
- b. Loans granted during the month; classified by Rate of Interest.
- c. Rates of Interest offered on Deposits.

8.4 Weekly Returns

Following weekly returns should be submitted on-line by the first working day after end of relevant week.

- (i) Deposits Movement in Previous Week (NBD-WF-18-DM)
- (ii) Expected Cashflow Summary (NBD-WF-18-ECS)

8.5 Quarterly Returns

On-line Returns

8.5.1 Following Quarterly returns should be submitted on-line before 15th of month following end of Quarter.

- (i) Branch Details: Business Places (NBD-QF-20-B1)
Business Places (NBD-QF-20-B2)
Business Places (NBD-QF-20-B3)
Business Places (NBD-QF-20-B4)
Business Places (NBD-QF-20-B5)
- (ii) Capital Adequacy: Computation of Capital Ratio (NBD-MF-20-C1)
Computation of Total Capital (NBD-MF-20-C2)
Computation of RWA for Credit Risk (NBD-MF-20-C3)
Credit Equivalent of Off- Balance Sheet Item (NBD-MF-20-C4)
Exposures Recognized under CRM (NBD-MF-20-C5)
Computation of RWA for operational risk (NBD-MF-20-C6)
- (iii) Loan Portfolio Details: Measurement on Credit Risk on Loan (NBD-QF-23-C3)
Product wise Probability of Default and LGD (NBD-QF-23-C4)

Collateral/Security wise classification of Loans (NBD-QF-23-C5)
Large exposure (Top 50 borrowers) (NBD-QF-23-C6)
Stage wise movement of Loans (NBD-QF-23-C7)
Classification of loans based on Internal CRR (NBD-QF-23-C8)
Sector wise Credit Exposure (NBD-QF-23-C9)
District wise Credit Exposure (NBD-QF-23-C10)

(iv) Financial Inclusion and sustainable Finance: Sustainable Finance Activities
(NBD-QF-16-SF)
National Financial Inclusion Council Survey
(NBD-QF-16-FI)

8.6 Other Quarterly Returns

to

8.6.1 Facts Book Sheet in the prescribed format should be e-mailed
Asst. Director, SNBFI within 20 days from the end of the
Quarter.

8.6.2 Information on Board of Directors, Branches and other
business places
This return should be prepared in the prescribed format and
e-mailed to the Asst. Director, DSNBFI within one month after end
of each quarter

8.6.3 Accommodations and Maturity Analysis
Quarterly Returns – SNBFI/FLA/2007/01 and 02 should be
forwarded to the Director, DSNBFI to reach him within one
month from end of the Quarter.

8.7 Annual Returns & Reports

8.7.2 Audited Financial Statements: Audited Accounts (Annual
Report) should be submitted within 3 months from the end of
financial year to the Director, DSNBFI, CBSL

8.8 On-line Returns (based on Audited Accounts)

8.8.1 Statements of Financial Position (NBD-AF-01-SOFP)

8.8.2 Statements of Comprehensive Income (NBD-AF-02-SOCI)

8.8.3 Capital Adequacy Ratio (NBD-AF-20-C1 to C6)

8.9 Other Annual Returns

8.9.1 An Annual Return in the prescribed format, giving details of
Individual loans and advances, should be forwarded to the
Director,

DSNBFI of Central Bank, to reach him on or before the 31st of
August following the end of each year.

8.9.2 A schedule of contracts written-off during a financial year should
be submitted in the prescribed format to the Director, DSNBFI,
CBSL by 30th June following the year end.

8.10 Opening, Closure and Relocation of Business place

Following are compiled under the Finance Companies (Opening, closure and Relocation of Business Places) Direction No 01 of 2016.

- i) Application & Details of new branches**
- ii) Application for closure of a Business Place**
- iii) Application for Relocation of a Business Place**

8.10.1 Publication of six months' Financial Data & Key Performance Indicators.

Key financial data and key performance indicators in respect of six months ended 30th September each year, should be published as per the format given by CBSL on or before 30th November.

8.10.2 Publication of Audited Accounts.

Audited Accounts and Auditor's Report should be published in Sinhala, Tamil and English daily newspapers within three months after the financial year.

Audited Accounts should also be displayed at all business places of the company.

8.11 Colombo Stock Exchange

The following un-audited quarterly financial statements of the company should be submitted to the Colombo Stock Exchange before the 15th. day of the 2nd. Month after each quarter except final quarter.

Financial statements of the final quarter should be submitted before end of 2 months after the quarter end.

Financial statements have to be in the same format as of the last published Annual Report.

- (a) Income Statement**
- (b) Statement of Financial Position**
- (c) Cash Flow Statement.**
- (d) Statement of Changes in Equity**
- (e) Business segmenting formation**
- (f) Relevant Notes to the Accounts and Corporate Information.**

Draft financial statements are forwarded to the Board Audit Committee for review and to suggest corrections/ improvements where necessary to the AGM Finance & Strategic Planning who shall respond and submit the revised version of the accounts to the Audit committee for any further comments.

If no further comments, the accounts should be forwarded to the Head of Internal Audit for their review. The Internal Audit Department reviews the financial statements and should communicate any corrections/ improvements to be made to AGM Finance & Strategic Planning.

With the completion of the Internal Audit review, unaudited draft financial statements are sent back to Head of Internal Audit who is also functions as the Secretary to the Audit Committee along with the Compliance Statement issued by the Chairman, Accounts Review Committee.

This entire process, should be done, as per a time plan agreed upon with the Audit Committee in order to make sure that the interim and annual financial statements are released to the CSE and the shareholders on time.

Annual Report based on audited financial statements, complying with all statutory disclosure requirements should be forwarded to the Colombo Stock Exchange within five months from the closure of the financial year. However, since the company has to submit copies to CBSL & publish accounts within 3 months the company has to submit copies to CSE too at the same time.

8.12 Shareholders

Copies of Annual Report should be forwarded to the shareholders within 05 months from the closure of the financial year. It is also required to circulate annual reports at least 21 days or 15 working days prior to the date fixed for the Annual General Meeting.

If Applicable Copies of the Quarterly financial statements submitted to the Colombo Stock Exchange are circulated amongst shareholders immediately after release to the Stock Exchange.

8.13 Filing audited financial statements with Sri Lanka Accounting & Auditing Standards Monitoring Board (SLAASMB).

Annual report of the company is filed with the SLAASMB immediately after it is released to the shareholders.

9 BANK RECONCILIATIONS

9.1 All bank accounts pertaining to Branches / Head Office should be reconciled on a monthly basis before the 15th of the following month by the respective controlling officer. In the case of Wide Service Branches (Galle Branch), bank accounts are reconciled by officers of such branch itself in the same manner. Salaries Department shall reconcile the bank accounts maintained for their operations. Bank account (common collection account) pertaining to all branches is monitored by the Head Office on daily basis.

9.2 Work should be divided among the subject officials as far as possible so that a officer checking the accuracy of banking of a particular location will not carry out the reconciliation pertaining to that Bank Account.

9.3 Relevant official should check the Bank Statements received to ensure that all debits and credits appearing therein relate to the business of the Company. Any shortcomings, discrepancies or unidentified items should be brought to the notice of the AGM Finance.

9.4 The designated officer shall review all bank reconciliation statements, have them corrected where necessary and sign them once in order. (Soft copies of reconciliation statement with scanned signatures can be used in the case of common

collection account) He shall take action to clear any outstanding items and report any such items that cannot be resolved or cleared to AGM Finance.

9.5 Any cheques issued by the Company and not presented for payment for over 6 months should be treated as cancelled and the details of same should be provided by the designated Officer to the AGM Finance enabling them to inform the Bank concerned.

10. MONITORING AND RECONCILIATION OF OTHER ACCOUNTS

General Ledger accounts including items listed in Annexure - 3 that are outside the scope of Salaries, Deposits & HP Accounts Departments should be monitored and reconciled on a monthly basis by designated officers at Finance Department. All reconciliation for a particular month should be completed before end of next months.

11. ACCOUNTS OF SUBSIDIARY COMPANIES (IF & when - APPLICABLE)

Accounting & taxation for the Subsidiary Companies are handled by designated officials at Head Office. Monthly, Quarterly and Annual Accounts will be submitted to the management along with monthly Statements of Statutory Compliance and quarterly financial operation compliance statement.

12. MONTHLY PROVISIONS, PAYMENT OF TAXES AND FILING OF TAX RETURNS

Monthly provision in accounts, payment of Taxes and Filing Tax Returns should be handled as follows by the Officer designated under the supervision of Head of Finance.

12.1 INCOME TAX

12.1.1. Quarterly Income Tax and deferred tax provision is provided base on the management account profit.

12.1.2. Quarterly Income Tax payments on self-assessment basis to be made where liability exists as advised by the tax consultant by the 15th of August, November, February and May each year with the final payment made on or before 30th September.

12.1.3 Income Tax returns are prepared by the tax consultant and submitted to the Dept. of Inland Revenue by 30th November each year. The return should include the following annexure:

- i) Annual Report**
- ii) Turnover reconciliation and Certificate under Sec107.**
- iii) Withholding tax certificates, if any**
- iv) Paying in slips for taxes paid, if any**
- v) Any other supporting documents such as receipts for donations etc.**

A covering letter listing out all these documents should be attached. The file copy of all these including the copy of the Tax Return and the acknowledgement of receipt thereof by the tax authorities should be obtained and retained with the officer nominated by the AGM Finance in a separate file for each year of assessment.

12.2 VAT ON FINANCIAL SERVICES

VAT on Financial Services self-assessment provision is paid on monthly by the 20th of the subsequent month and the return has to be furnished bi-annually as follows.

- i) From 01-April to 30-September - On or before 31st of October
- ii) From 01-October to 31-March - On or before 30th of April

Final payment for a particular year should be made based on audited financial statements. Annual adjustment should be forwarded to IRD on or before 30 September.

A monthly provision should be made in accounts based on VAT on FS computation which is used for monthly payment.

12.3 Social Security Contribution Levy (SSCL)

SSCL on Financial Services and SSCL on Other Service self-assessment provision is paid on monthly by the 20th of the subsequent month and the return has to be furnished Quarterly as follows.

- iii) From 01-April to 30-June - On or before 20th of July
- iv) From 01-Jul to 30-Sep - On or before 20th of Oct
- v) From 01-Oct to 30-Dec - On or before 20th of Jan
- vi) From 01-Dec to 31-March - On or before 20th of April

Final payment for a particular year should be made based on audited financial statements. Annual adjustment should be forwarded to IRD on or before 30 September.

A monthly provision should be made in accounts based on SSCL on FS and SSCL on Other Service computation which is used for monthly payment.

12.4 STAMP DUTY

Stamp duty is payable at prescribed rates on liable transactions. Payment and return should be filled quarterly by the 15th of the month after end of quarter.

Liability is ascertained with reference to stamp duty reports as confirmed by the respective branch managers. Head of Finance is entrusted with the task of collating such reports and making the payment on due dates.

12.5 CROP INSURANCE LEVY (If Applicable)

Crop insurance levy is calculated at one per cent (1%) of the profit after tax for a given year of assessment and is payable quarterly.

Levy could be calculated based on the estimated profit after tax for each quarter

or on ¼ of the profit after tax of the immediately preceding year.

Payment should be made on or before 30th day of the month immediately succeeding the end of that relevant quarter and the return too has to be submitted by the same date.

Reconciliation of actual liability with total liability declared should be done after finalizing the annual accounts for the relevant year of assessment. Additional liability arising after the reconciliation should be paid on or before the 30th September of year of assessment immediately succeeding year of assessment concerned. Excess payment if any shall not be refunded but can be set off against levy payable in subsequent years.

12.6 12.5 Advance Personal Tax Expenses

APIT Tax liable for the employee that gross remuneration exceeds 1,200,0000 per annum. Return should be filled annually 30th April after end of financial year.

13. TRANSFER PRICING REGULATIONS

- 13.1 The Extraordinary Gazette Notice No.1832/05**
- 13.2 The Extraordinary Gazette Notice No.1907/26**
- 13.3 The Extraordinary Gazette No 1960/39 and 1960/42**
- 13.4 Key Features of Transfer Pricing regulation**

13.4.1 Submission of Accountant's certification along with the income Tax Return for the year of assessment 2015/16 would be limited to international Transaction with associate undertaking where the aggregate of same is Rs.100mn or more.-

13.4.2. The Board of Directors are required to submit certification (in prescribed format) along with the income tax return, to the IRD, on aggregate of international transaction amounting to Rs.100mn or more. -

Transfer pricing provisions would continue to apply to domestic transactions. However, the statutory requirement to obtain certification has been withdrawn. –

Compliance Reporting would be enforced from the year of assessment 2015/16.

14. PAYMENT OF DIVIDENDS

Dividends to shareholders are declared periodically as determined by the Board of Directors. Approval of the Central Bank is required prior to declaring dividends. It is required to submit a reconciliation of profit based on SLAS/CBSL directions and LKAS/SLFRS up to the immediately preceding month end of the relevant financial year and prudential ratios as at that date, duly certified by the Board Audit Committee, to the Central Bank along with the Directors' solvency statement for this purpose. Usually two dividends are paid in respect of each financial year at such rates and on dates deemed appropriate by the Board.

Interim Dividends are declared and paid as approved by the Board while payment of the final dividend requires approval by the shareholders at the Annual General Meeting.

STATEMENT AND CERTIFICATE OF SOLVENCY AND PAYMENT OF DIVIDENDS

In terms of the Companies Act, No. 07 of 2007, Directors should issue a statement of solvency confirming that the company has the capacity and the financial means to pay the proposed dividend and that the company would remain solvent and be able to carry on usual business operations after the payment of such dividend. The procedure adopted in this regard is as follows:

- 14.1 Upon receipt of approval from the Central Bank, the Company Secretaries shall inform the Colombo Stock Exchange (CSE) with a copy of such CBSL approval and Directors' Compliance Certificate setting out the details of the dividend payment. The statement issued by the auditor, should be filed with the CSE before the payment of the dividend if listed in the stock exchange
- 14.2 AGM Finance will cause a statement of solvency to be prepared based on the latest available monthly financial statements. In respect of final dividends, Statement of Solvency shall be prepared based on the audited financial statements provided the payment is made within three months from the end of the financial year.
- 14.3 Such Statement of Solvency, after being signed by the Directors, will be forwarded to the company auditor for their verification and issuance of their certificate.
- 14.4 Upon receiving the Auditor' certificate, a resolution will be prepared declaring the dividend and confirming solvency and a copy of the solvency certificate should be forwarded to the Colombo Stock Exchange by the Company Secretary id applicable. A certified copy of the Auditor' Solvency Certificate should be submitted to the Central Bank.
- 14.5 AGM Finance will liaise with the Company Secretaries in regard to the payment of the dividend and provide the Secretaries, details with regard to the calculation and composition of the dividend.
- 14.6 Secretaries will, with due regard to statutory requirements, proceed to pay the dividend. However, payment of a final dividend shall be subject to approval by shareholders at the AGM.
- 14.7 Secretaries shall arrange to deduct Dividend Tax on qualifying dividends as instructed by AGM Finance and remit such Dividend Tax to the Department of Inland Revenue within 30 days of distribution.
- 14.8 AGM Finance shall arrange to file half-yearly returns on dividends by 30th April and 31st October each year in the prescribed format.

AGM Finance shall ensure that adequate stocks of pre-printed Dividend Warrants in the required format are available at all times.

15. PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS OF LANKA CREDIT AND BUSINESS FINANCE PLC (if and when applicable)

- 15.1 Consolidated financial statements The consolidated financial statements of Lanka credit and business PLC comprise the financial statements of the parent company and of its subsidiaries and of the group's interest in associates.

The financial statements of all companies in the group should be prepared for a

common financial year, which ends on 31st March.

15.2 Legal basis for preparation of consolidated financial statements

Preparation of consolidated financial statements of Lanka credit and business Finance PLC is governed by the following pronouncements.

Statute/Rule	Requirement
Companies Act No.07 of 2007	Annual reports (consolidated Financial Statements form a part of the annual report) need to be circulated to <u>shareholders within 06 months after the end of the financial</u>
Finance Business Act No.42 of 2011	Annual reports (consolidated Financial Statements form a part of the annual report) need to be circulated to <u>shareholders within 03 months after the end of the financial</u>
Listing Rules of Colombo Stock Exchange	Entities Listed on the Colombo Stock Exchange should submit interim financial statements to the Exchange within 45 days (45) from the end of 1 st , 02 nd and 03 rd quarters and two (02) months from the end of the fourth quarter for public release. It is required to circulate annual reports of the listed entities

15.3 Basis of Consolidation

Subsidiaries

Subsidiaries included in the consolidated financial statements are those companies in which the group directly or indirectly has an interest of over 50% of the voting rights and/or has the power to govern the financial and operating policies of the companies so as to obtain benefits from their activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which the control commences until the date the control ceases. The profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the parent, directly or indirectly, through subsidiaries are disclosed separately as “Non – controlling Interests”.

Intra-group transactions and balances and any unrealized gains and losses arising from such intra group transactions are eliminated in preparing the consolidated financial statements

15.3.1. Associate Companies (If and when applicable)

Associates are those enterprises in which the group has significant influence, but no control over financial and operating policies. Investments in associates are accounted for using the equity method. Consolidated financial statements include the group's share of gains and losses accounted under the equity method from the date that significant influence commences until the date that significant influence ceases. When the group's share of losses exceeds its' investment in an equity accounted investee, the carrying amount of that interest is derecognized and the recognition of further losses is discontinued except to the extent that the group has an obligation or has made payments on behalf of the investee.

15.3.2 Generally accepted accounting principles used in the consolidation process

According to generally accepted accounting principles, the following consolidation procedure is followed.

- a) When the financial statements used in the consolidation are drawn up to different reporting dates, adjustments are made for the effects of significant transactions that have occurred between those dates and the date of the controlling entity's financial statements. In any case, the difference between the reporting dates should be no more than three months;
- b) Consolidated financial statements should be prepared using uniform accounting policies for similar transactions.
- c) Since the consolidated financial statements only reflect transactions between the economic entity and other entities external to it, the transactions between entities within the economic entity are eliminated in full to avoid double-counting.

15.3.3 Consolidation process

Financial statements of the Company, Subsidiary and Associate companies should be sent to AGM Finance as per the time plan prepared.

An Excel based template is used to prepare the consolidated financial statements where results of individual financial statements of subsidiary and associate companies are manually fed into detailed Working sheets which have been linked to financial statements (Income Statement and Statement of Financial Position) to maintain the accuracy of date entry.

15.3.4 Elimination of inter group transactions

Following transactions are eliminated in full in the consolidation process to avoid double counting

Income Statement

- a) Interest earned by group companies on fixed and savings deposits placed with Lanka credit and Business Ltd
- b) Interest earned by fellow subsidiary companies from another subsidiary company on short term loans
- c) Management fees paid by the parent to subsidiary companies
- d) Vehicle hiring charges paid by the parent to subsidiary companies
- e) Rent income earned by subsidiary companies from the parent
- f) Dividends paid and earned by the parent, subsidiaries and associate companies from related companies
- g) Other intra – group transactions where elimination is required as per Accounting Standards

Statement of Financial Position

- a) Inter- company loan balances
- b) Amounts due from the parent to subsidiaries
- c) Inter- company current accounts
- d) Inter- company loans
- e) Other intra – group transactions where elimination is required as per Accounting Standards

16. APPROVAL PROCEDURE PRIOR TO RELEASE THE FINANCIAL STATEMENTS TO THE COLOMBO STOCK EXCHANGE AND TO THE

SHAREHOLDERS

An Accounts Review Committee has been established within the accounts department to review and improve the quality of the reports availed by the Accounts Department. This Committee is headed by a CEO / Executive Director, DGM, AGM Finance and relevant functional Heads

Upon submission of the first draft of the Consolidated Financial Statements by AGM Finance, it is the responsibility of the Accounts Review Committee to review the Group Financial Statements and identify further improvements. Comments of Committee Members are communicated to the AGM Finance via e-mails and thereafter a formal meeting is held to discuss issues and improvements, and Group Financial Statements are amended accordingly.

Revised Financial Statements are sent back to the Accounts Review Committee and with the approval of the Accounts Review Committee, the final version is released to Manager (Internal Audit) / Secretary to the Audit Committee who will circulate the Financial Statements to the Audit Committee.

With the due approval of the Audit Committee, and with approval of the Board of Directors, the Financial Statements are released to the Colombo Stock Exchange and to the shareholders within the time frames stipulated under the rules and regulations referred above.

17. PROCEDURE FOR POST – DATED CHEQUES

With regards to all clients, postdated cheques for six months or a Standing Order from the bank should be obtained to minimize the risk of default payment regarding rentals.

- **All post-dated cheques to be entered to system by operation executive and cashier is responsible for issuing receipt on due date.**
- **Cashier should keep all PD cheques under his/her custody and maintain a register for PD cheques as well.**
- **Branch Manager should check all the PD cheques are entered to the system by referring the PD Register.**
- **Recovery manger and branch manager should approve all canceled or hold PD cheques.**
- **Customer receipt copy must be sent to relevant customers**

18. PROCEDURE FOR BUDGETING PROCESS

Currently LCB Finance PLC use zero based budgeting technique where every financial year start with zero balance with detailed analysis of income and expenses. Following procedures are in place.

- **The budget will be finalized two months prior to the relevant financial year and get it approved from Board of Directors immediately.**
- **Above approved budgeted target will be circulated among branch managers before the new financial year.**
- **Variance analysis for key performance indicators will be done on monthly basis by finance department and communicate management regularly.**

- All employee benefits will be linked with the level of achievement of budgeted target.

19. PROCEDURE FOR TRANSFERRING IMPROVABLE PROPERTIES AS A SETTLEMENT OF CREDIT FACILITIES

Once after due adherence with the recovery procedures mentioned in the credit circular no 2022/08 (9th June 2022). Company takes necessary actions to transfer the ownership of the mortgaged property with due notice to the borrower. Following further procedures will be applied in recording the transactions in the company's book.

- Obtaining the valuation from registered valuer.
- Obtaining the board approval on the aforesaid property transferring transaction.
- Recognize the transaction in the general ledger as investment property at its fair value.
- If there is an excess amount over the original loan outstanding, such amount will be refunded to customer immediately.

20. PROCEDURE FOR IDLE/NON-OPERATIVE GENERAL LEDGER AND BANK ACCOUNTS

Finance department review the Idle/Non operative GL accounts on regular basis and report to Audit Committee in the case where permanent closure is required due to non-occurrence of future transaction to be recorded in such account. Otherwise, it will be continued in the chart of account.

For dormant bank account will be closed with the approval of board of directors on regular basis.

Annex.

Format No1 –

Information contained in the Management Information formats submitted to Directors

- 1) **Monthly Management Reports**
 - a) Summary of Business Performance
 - b) Review of Financial Performance
 - c) Graphical Presentation of Financial Information
 - d) Summary of Operating Results
 - e) Statement of Financial Position
 - f) Income Statement
 - g) Cash Flow Statement
 - h) Movement of Deposits
 - i) Summary of Collections/Portfolio Grading
 - j) Business Loans Report-Loan size wise and rental arrears bucket wise
 - k) Branch Performance and Profit Centre Performance
 - l) New Business Statement/Progress report on Strategies for Business Growth/Dealers Contribution to New Business/Performances of Dealer Advances, New Business and Recovery Related Cost, Analysis of ticket size of Facilities
 - m) Movement in Write-Off Portfolio
 - n) Capital Expenditure Status Report
- 2) **Minutes of the Asset & Liability Risk Management Committee**

- 3) **Minutes of the Related Party Transactions Review Committee**
- 4) **Any other business to be taken up**
- 5) **Comparison of Competitor Performance**

Format No. 02 –

Information forwarded for inclusion in the Board of Management folder

- **Statement of Operational Ratios.**
- **Gross Profit earned on Asset Categories before and after cost of Funds.**
- **Movement of Operating Expenses.**
- **Performance of the Deposit Base.**
- **Fund Management information.**

Format No 3 –

List of Control Accounts that should be reconciled on monthly basis by the designated Officer at Accounts Dept.

- **Term Loans (Pledge Loans)**
- **Share Portfolios including investments in subsidiaries and associates**
- **Company vehicles**
- **Returned cheques**
- **Other Debtors**
- **Other Creditors**
- **Other Assets & Liabilities**
- **Cash in hand**

SECTION II PAYMENTS

PAYMENT GROUPS

1. PAYMENTS ARE GROUPED INTO THE FOLLOWING CATEGORIES:

1.1 Deposits & Savings

2. **Refunds of Deposits at maturity**
3. **Premature Refunds**
4. **Temporary Refunds**
5. **Savings withdrawals**
6. **Interest Payments**
7. **Withholding Taxes (If applicable)**

8. FOREX payments

The procedures in detail are dealt in the Savings & Deposits Manual already issued

1.2 PAYMENTS ON ACCOUNT OF DISBURSEMENTS

1. **Hire Purchase**
2. **Consumer Finance**
3. **Lease Plus**
4. **Lease Finance**
5. **Dealer Advances**
6. **Term Loans**

7. Vehicle Hire
8. Sub Loans
9. Micro Finance
10. Business Loans
11. Gold Loans

1.3 HOUSING & REAL ESTATE

1. Payments to vendors of Real Estate
2. Payments to builders
3. Stamp Duty on purchase
4. Other Expenses

1.4 TREASURY/INVESTMENT RELATED PAYMENTS

1. Purchase of shares/debentures
2. Purchase of Treasury Bills/Bonds
3. Investments in Bank Fixed Deposits
4. Investments in Units

1.5 NEW BUSINESS RELATED PAYMENTS

1. RMV – Registration, transfers etc.
2. Business Introducer Commission.
3. Refund of advance payments
4. Refund on cancellation of contracts.
5. Payment for Promotional Items, Gifts, and Free Items etc.
6. Pre credit investigation Expenses

1.6 COLLECTION & RECOVERIES

1. Investigation Fees/Debt Collectors" Commission /Seizing Charges
2. Refund of excess rental payments.
3. Refund of Insurance Claims.
4. Expenses incurred on recovery of bad debts
5. Legal Expenses
6. Temporary repair advances

1.7 RE-POSSESSED VEHICLES

1. Maintenance Expenses (Tires & Tubes, spare parts, oil, repairs etc.)
2. Commissions on Sale.
3. Revenue License, Insurance, Diesel Taxes etc.
4. Expenses for /Auctions.
5. Advertising and other related expenditure.
6. Valuation fees
7. Travelling and transport

1.8 CAPITAL EXPENDITURE

1. Land & Buildings
2. Company Vehicles
3. Office Equipment
4. Furniture & Fittings
5. Computer Equipment
 - 5.1. Software
 - 5.2. Hardware
6. Other Assets

1.9 REVENUE EXPENSES

1. Utility Bills such as Telephone, Electricity & Water
2. Rates & Taxes
3. Printing & Stationery, Computer Stationery
4. Janitorial Services
5. Security Services
6. Charity & Donations
7. Travelling & Subsistence, Incentives, Post Credit Investigations
8. Staff Welfare
9. Advertising
10. Upkeep of Buildings/ Equipment
11. Upkeep of Computer Hardware, Software & related expenses
12. Subscriptions, Consultancy Fees, Entertainment Expenses, Books and periodicals
13. Company Vehicle Maintenance
14. Petty Cash reimbursements
15. VH Vehicle Maintenance
16. Work Shop/Service Station Expenses Vehicle Yard Expenses
17. Sundries
18. Taxes

1.10 STAFF EMOLUMENTS

1. Salaries & Advances
2. Staff Loans
3. EPF & ETF remittances
4. Terminal Benefits
5. Bonus, Leave pay, Incentives and other staff benefits
6. Taxes in relation to Staff Emoluments

1.11 BRANCH EXPENSES

1. Revenue Expenditure
2. Capital Expenditure

1.12 INSURANCE PAYMENTS

1. Company Insurance
2. Insurance on Credit contracts (HP/ LF/Lease Plus/VH/SH)

2. LIMITS OF AUTHORITY TO MEET UNBUDGETED CONTINGENCIES at FINANCE DEPARTMENT (Subject to requirements stipulated in the Procurement Policies and Procedures Manual) y circulated)

	Nature of Payment	Examples	Mode of Payment	Approval
2.1	Routine Revenue Expenditure up to Rs. 3,000/-	Stamps for Postage Documents and Receipting, Staff Welfare Upkeep of Premises & Equipment, Transport etc.	Petty Cash Float	Relevant Head of Department/ Branch Manager
2.2	Routine Revenue Expenditure over Rs. 3,000/- up to Rs 15,000/=	Stamps for Postage , Documents and Receipting, Staff Welfare, Upkeep of Premises & Equipment , Transport etc.	Cheque or Fund Transfers.	AGM Finance to be recommended by the Mang Administration

2.3	Repairs and Maintenance of Motor vehicles / Motor Cycles of the company (Procurement Batteries Spares Tyres & Tubes)	<p>a. Up to Rs.3,000/-</p> <p>b. Over Rs.3,000/- up to Rs. 15,000/-</p> <p>c. Over Rs. 15,000/-up to Rs 1,000,000/-</p>	<p>a. Petty Cash Float</p> <p>b. Cheque or Fund Transfers.</p> <p>c. Cheque or Fund Transfers.</p>	<p>a. Branch Manager</p> <p>b. AGM Finance to be recommended by Manager Administration</p> <p>c. CEO/ Executive Director to be recommended by Head of Department or Branch Manager or Manager</p>
2.4	Business Introducer Commission Payments (only Leasing)	2% or such other rate circulated based on our Exposure	Cheque or Fund Transfers.	Follow Circular Instructions or Relevant Approved Memo.
2.5	Taxes and Levies to Government	Income Tax, Value Added Tax, Social contribution Levy Nation Building Tax, Withholding Tax, Stamp Duty etc.	Cheque or Fund Transfers	Head of Finance/AGM Finance Under advice to /CEO/ Executive Director as per statutory requirements
2.6	Utility Bills	Electricity, Water, Telephone	Cheque or Fund Transfers	Telephone Bills by Manager Administration/AGM Finance Water/ Electricity Bills

2.7	Non-routine Revenue Expenditure	<p>a. Donations</p> <p>b. Advertisements</p> <p>c. Upkeep of Premises and Equipment – <i>Goods and Services up to Rs.5000/-</i></p> <p>d. Upkeep of Premises and Equipment – <i>Goods and Services Rs. 5,000/- to Rs. 25,000/-</i></p> <p>e. Upkeep of Premises and Equipment – <i>Goods and Services over to Rs.25,000/- up to Rs 500,000/-</i></p> <p>f. Upkeep of Computers up to Rs.15,000/-</p> <p>g. Upkeep of Computers Rs. Over15,000/- up to Rs 500,000/-</p> <p>h. Printing & Stationery, Computer Stationery</p> <p>i. Insurance premiums relating to Company Vehicles, Vehicle hire, Short Hire, Budget hire Vehicles, Medical</p>	Cheques or Fund Transfers	<p>a. CEO/ Executive Director</p> <p>b. Approval CEO/ Executive Director. Recommend by Marketing</p> <p>c. Approval AGM Finance - Recommend by Manager (Admin) or relevant Head of Dept/or Branch Manager.</p> <p>d. CEO/Executive Director Recommend by Manager (Admin) in the case of H/O, relevant Head of Department</p> <p>e. CEO/ Executive Director Recommended by Manager Administration</p> <p>f. AGM Finance Recommend by Head of IT</p> <p>g. CEO/ Executive Director Recommend by Head of IT</p> <p>h. CEO/ Executive Director or AGM Finance Recommend by Manager (Admin)</p> <p>i. Insurance premium as per the policies in force.</p>
2.8	Professional Fees/Consultancy Fee/Legal Fees License Fees	Audit Fees, Lawyer's Fees, and Surveyor Fees, Property Valuation Fee and Tax Consultancy, System Evaluation & Developments, License fees. Statutory & Regulatory Payments	Cheque or Funds Transfers	As agreed with service providers or The Relevant approval document / circular/ CBSL Direction or ACT under advice to CEO/ Executive Director
2.9	Credit (New Business) Payments	Payments to Dealers / Suppliers on Hire Purchase, Lease, Vehicle Hire etc.	Cheque or Funds Transfers	CEO/ Executive Director to decide and communicate to AGM Finance on a case by case

2.10	Capitall Expenditure	Purchase of Furniture & Fittings, Motor Vehicles, Computer Hardware & Software, Office Equipment	Cheque or Funds Transfers	a. Up to Rs. 5,000/-: AGM Finance Recommended by Manager (Admin) or relevant Head of Department. b. Over Rs. 5,000/- to Rs 100,000/- CEO Executive Director on recommendation of relevant head of Department -refer Procurement Policy Manual Paragraph 9 (b) and note 2 below
2.11	New cash floats and or enhancement of Existing cash floats	Petty cash, ATM, RMV, s, marketing / promotion, etc.	Cheque or Funds Transfers	CEO /Executive Director recommended by Relevant Head of Department / Branch Manager
2.12	Advance payments/Part payments	Advances for special functions, Promotions, events, Training and Seminars part payment on project, constructions,. Refurbishing etc	Cheque or Funds Transfers	CEO/ Executive Director if within budget if not to be Recommended by relevant Head of Department. Subject to note 1 below.
2.13	Service Procurement by Departments	Courier, Posting of letters, Debt collectors fees, Cash transport, Scanning, Man power etc.	Cheque or Funds Transfers	As per agreements with the service providers. Copies to be held by Head of Finance

Note 1

Advance payments (refer 2.13 above) (Also refer Paragraph 13 of Procurement Policies and procedures manual)

- Any activity and / or contract with a supplier / service provider has to be approved by the CEO/ Executive Director backed by an estimate and recommendation of relevant Head of the department.
- If it is necessary to provide and advance payment to the supplier / service provider such fact should be notified to the approving authority.
- The relevant order or contract should be finalized subject to the condition that the supplier / service provider submit an unconditional advance payment guarantee bond payable on demand, on a format acceptable to the company, from a Bank in our favour, valid up to 14 days beyond the due date of completion of the order / contract, irrespective of the value of the advance payment. The Guarantee bond should be referred to Manager Legal to ascertain acceptability.
- If the advance is for a construction activity with stage payments based on progress reports the advance should be recovered from stage payments (E.g. say if five stage payments are involved recover advance payment in five installments)
- In case of default by supplier/ service provider the guarantee should be encashed by lodging a claim on the issuing Bank.
- A copy of the Guarantee Bond should be provided to the Head of Finance to make the advance payment. Balance payment should be made only after satisfactory completion of the activity involved and the Head of the Department who initiated the request should authorize the Head of Finance to make the Balance Payment and also arrange to release the Guarantee bond duly cancelled
- In case of a unforeseen event the requirement of obtaining the afore said Guarantee Bond could be waived by CEO/ Executive Director at his discretion with view to expediting the process of acquiring the service / goods required urgently by the company

Note 2

Extract from Page 3 of the Procurement Policy Manual for Easy Reference.

DELGATED AUTHORITY

The Authorization Limits

Expenditure category	Procurement Committee of the Board	CEO Executive Director	Senior Deputy General Manager	Assistant General Manager	Head of Operations	Branch Manager
Within the Budget	Rs 10 M	Rs 5 M	Rs 2 M	Rs 1 M	Rs 25,000/-	Rs 10,000/- Subject to note below
Not Budgeted	Rs. 3.M	Rs 2 M	Rs 1.M	Rs 0.5 M	Nil	Nil

Note – Branch Manager - Operations subject to prior approval of CEO/ Executive Director – Recommended by Manager Administration

3. SPECIAL CONDITION:

- I. Any payments to or on behalf of the Branch Manager or Head of a Department to be approved by the next higher Authority.
- II. Where Capital Expenditure is not budgeted for, approval of the Board Procurement Committees should be obtained before the order is placed. Manager (Administration) or relevant head of Department should arrange to obtain Board Approval for unbudgeted capital expenditure as per requirements in the Procurement Manual
- III. Circulars for Travelling & Subsistence / Fuel reimbursements / Investigation fees / Incentive payments are issued by CEO Executive Director with AGM Finance from time to time. Approvals to be effected in accordance with Circulars in operation. Special treatments other than the normal rates could be paid under the approval CEO/ Executive Director
- IV. Rent - as per the Rent Agreements in force.
- V. Total estimated value for the activity to be approved by CEO/ Executive Director for effecting Advances/Part payments. Original bills to be submitted with approved Memorandum to the Payments Unit in the manner requested by AGM Finance.
- VI. When making payments to overseas supplier, care should be taken in ensuring the exchange rate and bearing of WHT.
- VII. Reimbursement entitlements in relation to the Mobile Phone bills as per circulars in force in consultation with Head of Human Resources.
- VIII. Prior approval from CEO/ Executive Director is required for employing a casual employee. with the applicable rates of payment.
- IX. Settlement of Advances- Relevant bills need to be submitted to the payments department soon after the event is over in order to settle the Advance payment with certification of respective Head of Department in Charge confirming the conclusion of the event. Fresh approval is to be taken if the actual expenses exceed the budget/estimate or actual expenses are not in accordance with the budget/estimates from the original approving authority.
- X. Refund payments for erroneous direct-credits from banks-.Bank should forward a request letter to refund and it should be approved by the Head of Finance.

- XI. Procumbent of goods and services of revenue and capital nature, which are recurring / high value shall be purchased adhering to the Procurements Procedures Manual approved by the Board of Directors.**

4. GENERAL

4.1 Documentation

All Payment Vouchers should be completed with the following supporting documents as and when applicable.

- 4.1.1 Requisition by user with proper approval by the relevant authority with reference to the financial regulations in regard to payments.**

Original Invoice from supplier with confirmation from head of user department/branch/unit in regard to receipt of goods or services rendered.

- 4.1.2 Memo of Payment/Payment Voucher along with Contract File complete with other documents pertaining to new business payments as set out in Credit Division manual of procedure.**

- 4.1.3 Approval of payment by appropriate Authority in accordance with section 2above.**

- 4.1.4 Payment Voucher should, among other things, contain the following information to facilitate proper classification and correct accounting.**

4.1.4.1 Name of Payee

4.1.4.2 Amount payable

4.1.4.3 Voucher number

4.1.4.4 GL Account number and title/Relevant division /branch code

4.1.4.5 Cheque number

4.1.4.6 Name of the bank

4.1.4.7 Identification number of the system operator

4.1.4.8 Proper narration such as

4.1.4.8.1 Contract No in case of credit payments

4.1.4.8.2 Vehicle No and name of owner where the payment relates to a vehicle.

4.1.5 PAYMENTS – ORIGINATION OF DOCUMENTS

Head of Department or a designated Officer of the department requisitioning payment shall authorize such payments.

Payment Vouchers shall be originated through the computer system and the following shall place their signatures:

4.1.5.1 Certifying Officer

4.1.5.2 Approving Officer/First signatory of cheque

4.1.5.3 Second Signatory

4.1.5.4 Payee or his agent (in acknowledgement)

Please note that the printing of payment vouchers may not be necessary when a payment is arranged through the file net system. Therefore signatures will not be placed in the vouchers since confirmations are placed through the system by the Certifying Officer and Approving Officers.

4.2 CERTIFICATION

The Certifying Officer should ensure, inter-alia, that;

- 4.2.1 Payment is in accordance with the regulations laid down in respect of rates, entitlements, limit setc.
- 4.2.2 Written confirmation as regards receipt of goods, satisfactory completion of service etc., by the appropriate authority is available.
- 4.2.3 Rules applicable regarding tenders, quotations, estimates are adhered to.
- 4.2.4 Comparisons are made in respect of recurrent payments like Electricity, Telephone, Water Rates, Janitorial, and Security Service Contracts etc., to ensure that material variations are investigated.
- 4.2.5 Arithmetical accuracy is checked.
- 4.2.6 Proper approval is available for the payment in accordance with company's financial regulations and within delegated financial authority.
- 4.2.7 Where advance payments are made, these should be recorded in a register to facilitate follow up action.
- 4.2.8 Proper classification of payments through identifying correct GL codes (GL account/division/branch code etc.)

4.3 Approval of Capital Expenditure

- CEO/ Executive Director should approve all capital expenditure before the order is placed. He Procedures in the procurement Manual should be followed
- Where such capital expenditure is not budgeted for in that year, approval of the Board procurement Committee should be obtained through the CEO/ Executive Director
- The Paying officer should ensure that adequate narration is available to enable the expenses to be classified correctly for purposes of accounting. (Accuracy of GL codes /sub ledger codes).

5. APPROVAL OF REVENUE EXPENDITURE

All revenue expenditure should have due approval in accordance with section 2 above before payment is effected

SIGNING OF CHEQUES/ AUTHORIZING ON LINE PAYMENTS (SLIPS) OR PAYMENTS THROUGH LCB SAVINGS ACCOUNTS

5.1 AUTHORIZED OFFICERS

The Board of Directors, on the recommendation of the CEO / Executive Director) will approve lists of Officers authorized to sign cheques/ authorize online payments SLIPS or payments through Current /Savings accounts of the company within authorized limits from time to time. Such limits are revised from time to time in keeping with business volumes and business needs cost increases

5.2 FIRST SIGNATORY

The officers to act as first signatory to cheques are specified from time to time by the Head of the Finance Division. It is the responsibility of the first signatory or first authorizing Officer in the case of cheques/ funds transfers to ensure that the payment/ cheque is a proper payment due from the Company to the payee and that payment procedures and financial regulations as applicable have been properly and adequately followed. He/ She should always bear in mind that the second signatory will not carry out the same detailed check.

5.3 SECOND SIGNATORY

Any Officer duly authorized by the Directors from time to time could sign cheques/ authorize the funds transfers. The second signatory/authorizing Officer should also carry out random checks of supporting vouchers and review the reasonability of the

payment and where his suspicion is reasonably aroused or has any doubts, check the documents carefully and obtain necessary clarifications from relevant Officers including first signatory before placing his signature.

5.4 DELIVERY OF CHEQUES

The Officer in charge of payments should ensure the following in regard to the issue and delivery of cheques, which should always be “order” cheques and crossed “Not Negotiable”. All cheques drawn in favour of Companies, Firms and Partnerships should necessarily be crossed “Account Payee only”.

5.4.1 Payee’s / recipient’s acknowledgement should be obtained on the payment voucher as proof of delivery and to facilitate identity should the necessity arise. His Name and NIC No should be obtained on the voucher in the space provided for.

5.4.2 Where the Payee does not call over to collect the cheque in person or where the Payee is a company or institution, a letter of authority from the Payee authorizing

5.4.3 the release of the cheque to his representative should be called for. In such instances the cheques should be crossed “A/c Payee only” in addition to the “Not Negotiable” crossing.

5.4.4 When mailing cheques that are not crossed “Account Payee only”, they should be sent under registered post.

6 PAYMENTS

6.1 NEW BUSINESS PAYMENTS

Designated Officer in the Finance Department should ensure that:

6.1.1 The relevant Department/ Branch has arranged cheque or funds transfers and forwarded together with the Purchase Order and the Memo of Payment duly approved by the relevant authorized officer together with the completed contract file. Please note that the physical contract file may not be necessary to be forwarded when a payment is arranged through the file net system. Scanned copies of the above documents need to be attached to the system and approvals at all levels in relation to the credit facility to be made through the system.

6.1.2 The facility should be approved by the relevant officer as per delegated limits or authority in keeping with the policies & procedure pertaining to the Credit Dept. and circulars in force credit approvals.

6.1.3 All vehicle contracts should be checked for

*.Accuracy of Invoice/ Tax Invoice

6.1.3.1 Proper authorization for payment by a Branch Manager.

6.1.3.2 Proper Approval of the credit facility (In accordance with delegated financial authority for credit administrative functions). Time to time individual approval limits are being set in the credit system by the IT Department.

*.Accuracy of payment (Value of the payment, Payee and, compliance with supplier instructions etc.)

6.1.4 All facilities on machinery should be checked for approval of contract, original invoice,

6.1.5 Where a file / Soft copies of a file with payment is forwarded for payment after three months from activation, the Certifying Officer should check through Accountant (Credit) / Accountant (Recoveries) and establish that the relevant Creditor remains unpaid.

6.2 LEASE FINANCE/HIRE PURCHASE/MICRO FINANCE CONSUMER FINANCE AND LEASE PLUS/IFALOANS

It is important to ensure that Lessees and Hirers are in no way inconvenienced or payments delayed due to shortcomings in the preparation of documents or internal procedures, but at the same time Company assets and interests must be safeguarded.

The Branch Manager/ other officer responsible for authorizing the payment should ensure that all documents are in order, and other relevant documents properly completed and signed by the Officer responsible for preparing and checking before authorizing payment.

The designated Officer at the finance Department should ensure that the alterations made have been authenticated by the officer concerned and by lessee/hirer where necessary. Material alterations (E.g. Name of Payee, amount payable) should be authenticated by the Branch Manager concerned with his full signature.

The Certifying Officer should pay particular attention to the following:

6.3 MEMO OF PAYMENT DUE/PAYMENT VOUCHER

- a) The correct Contract Number should be indicated
- b) Correct Name of Payee – This should tally exactly with that of the NIC/Certificate of Incorporation and any letters of authority where applicable.
- c) All copies of Payment Memo or system generated payment memo/Payment Voucher should be completed to ensure that the copies match exactly with the original including alterations/conditions/endorsements.
- d) Correct amount payable – in words and figures (alterations should be authenticated by the Manager with full signature)
- e) Facility approval – Full signature or system approval of approving Authority..
- f) Conditions E.g. – “Payment Pending Receipt of CR” “Payment on CR Extract” “Payment strictly on receipt of CR” to be indicated and authenticated with full signature.
- g) Corrections, if any, made should be authenticated with full signature by the Manager
- h) Where the payment is to be made to a Dealer with outstanding Dealer Advances (DA), the original payment memo shall not be released, but stamped „SET OFF AGAINST D/A” and forwarded to the officer handling the settlement of Dealer Advances so that such value could be set off against the DA. They shall in turn inform the Head of Finance as the case maybe.

6.4 OTHER CONNECTED DOCUMENTS

- a) Proposal Form
- b) Agreement
- c) Invoice/Tax Invoice from Dealer
- d) Our Delivery Order to Dealer
- e) Hirer/ Lessee’s acceptance receipt
- f) Hirer/Lessee’s letter of authority for payment

- g) Receipts evidencing payment of initial charges/forward rentals
- h) Power of Attorney
- i) Vehicle valuation sheet authenticated by authorized officer.
- j) Security Documents
- k) CR after registration of absolute ownership in favour of CFC or Confirmation from Officer in charge of the RMV desk at C/O.
- l) Delivery/acceptance receipt
- m) Letter of confirmation from Deposits Dept. where deposit certificates are surrendered as security on unencumbered deposit balance.
- n) CRIB clearance

6.5 Encashment of cheques over the counter Encashment of cheques crossed "Not Negotiable" shall be allowed on the following grounds only, subject to availability of cash with the company cashiers.

6.5.1 Payee to be the registered owner of the vehicle.

6.5.2 Encashment to be approved by a SDGM. Payee to be identified with reference to a valid document of identity; namely - NIC, Passport or Driving License.

6.5.3 Relevant Branch Manager to certify the identity of payee in accordance with 5.2.3(b) above.

6.5.4 Encashment of cheques from the Bank counter

Encashment of cheques from the bank "All crossing cancelled" shall be allowed on the following grounds only, subject to availability of cash at bank.

6.5.4.1 Payee to be the registered owner of the vehicle.

6.5.4.2 Encashment to be approved by the Branch Manager.

6.5.4.3 Payee to be identified with reference to a valid document of identity; namely

- NIC, Passport or Driving License

6.5.4.4 Branch Manager to certify the identity of payee in accordance with 5.2.3 (c) above.

6.6 SUB LOANS

Sub Loans are granted to eligible existing Lease or Hire Purchase customers as stipulated by the Credit Department Manual of Procedure. Following aspects should be specifically looked in to when effecting Sub Loan payments:

6.4.1 Letter of request from Hirer/Lessee should be available. **6.4.2** Copy of CR with Hirer/Lessee as registered owner and LCB as absolute owner.

6.4.2 Fresh valuation of vehicle to establish that the value of vehicle covers the enhanced exposure after granting the Sub Loan.

6.4.3 Adequate Insurance to cover enhanced exposure as above.

6.4.4 Confirmation from Branch Manager that the vehicle has been seen physically to establish that hirer/ lessee is in possession of the vehicle.

6.4.5 Payment cheques with "Account payee only" & "not negotiable". Removal of crossing can be done as stated in 5.2.4 above where necessary funds transfers shall be issued only in the name of the existing hirer/lessee.

6.7 SHORT TERM LOANS & DEALER ADVANCES

5.4.1 Approved Memo of Payment accompanied by the Term Loan/Dealer Advance file should be received at the payments unit.

5.4.2 All Term Loans and Dealer Advances should be approved by the designated Authority

5.4.3 The file should include a credit report and completed checklist.

6.8 PAYMENT OF BUSINESS INTRODUCERS' COMMISSION

- 6.8.1** Commissions pertaining to business incepted by Head Office will be paid subject to the section 5.5.3 given below as recommended by the respective Head of such Department or designated Officer.
- 6.8.2** Commissions pertaining to Branch business should be approved by the respective Branch Manager and paid subject to the section 5.5.3 given below through Head Office.
- 6.8.3** Unless approved by CEO/ Executive Director, Payment of commission will be made only after receipt of Certificate of Registration in the case of vehicle contracts and the relevant contract file should carry an endorsement pertaining to the receipt of the Certificate of Registration.
- 6.8.4** A standard schedule of commission rates approved by the CEO/ Executive Director will be made available to the Payments Units /upload to the system and all alternations to same will also be communicated from time to time to the Payments Units/upload to the system.
- 6.8.5** All payment requests should be made on the relevant contract files and the file should be endorsed at the point of payment with details of commission payment to avoid duplicate payments.

In the case of File net commission payments should be made together with the relevant supplier payment and system control is available to avoid duplicate payments. (System does not allow to process two payments for one contract

Payments can be made by Cheques/Fund Transfers shall be issued only in the name of the registered introducers with "Account payee only" & "not negotiable" crossings. Removal of crossing can be done as stated in 5.2.4 above where necessary.

7 PAYMENTS TO CERTIFYING AND APPROVING OFFICERS

Under no circumstances should any officer approve or certify payments to him. Approval for such payments should always be obtained from a superior officer.

8 DEBT COLLECTORS' COMMISSION – HEAD OFFICE

Debt Collectors' Commission payments would be controlled and paid at head office and AGM Finance will be authorized to make such commission payments on a case-by-case basis by CEO/ Executive Director in writing. Head of Finance to maintain records and develop formats to make claims by Debt Collectors in consultation with AGM Finance. These payments will be subject to deductions arising out of any taxation in force.

8.1 REFUNDS

- 8.1.1** A written request should be obtained from the claimant (lessee/hirer/other customer) indicating the nature and the amount of the refund sought.
- 8.1.2** Wherever applicable, the original official receipt issued by the company shall be surrendered in support of the refund claimed.
- 8.1.3** Branch Manager / relevant Head of Department shall check the authenticity of the claim and forward his specific written recommendation for release of the credit balance/excess, to the AGM Finance Where the refund relates to a loan account (HP/LP/LF/Term Loan/Business Loan etc.), the relevant contract file too shall be forwarded with the refund claim. Please note the physical contract file would not be

forwarded if the supplier payment is made through the system but all other documents specified above need to be submitted.

- 8.1.4 The Officer in charge shall check the contract and payments and, the refund is in order, he shall certify the amount for refund. Where the refund relates to a loan account, the refund shall be worked out with reference to a full balance computation drawn up and obtained as of the date of refund. In checking the payments made, the officer shall satisfy himself that there are no erroneous credits and that all cheque payments are realized. He may, where deemed necessary, refer such cheque payments to Branch Manager or Head of Department) for confirmation of realization.
- 8.1.5 Refunds relating to loan accounts shall be forwarded to Head of Recoveries at Head Office to obtain approval of CEO
- 8.1.6 Once payment is certified and authorized as above it shall be sent to the Finance Department for payment along with the contract file and all relevant calculations, minutes and certification. Please note the physical contract file would not be forwarded if the supplier payment is made through the E Finance system but all other documents specified above need to be submitted.
- 8.1.7 If documentation is in order as per certification and authorization, the AGM Finance shall proceed to effect the refund by cheque or funds transfer.
- 8.1.8 The refund cheque/funds transfer shall be issued strictly in the name of the lessee/hirer or other customer who made the payment or on whose behalf the payment was made.
- 8.1.9 Such cheques shall essentially be crossed "Not Negotiable". Where the cheque is to be collected by a third party on behalf of the Payee, such cheques will in addition be crossed "Account Payee". And the person who collects the cheque on behalf of the Payee shall produce a written authority to such effect from such Payee.
- 8.1.10 Cheques favouring Companies and other firms shall be crossed "Account Payee".
- 8.1.11 Encashment of cheques crossed "Not Negotiable" shall be allowed on the following grounds only, subject to availability of cash with the company cashiers.
 - a) Encashment to be approved by the relevant head of the department /Branch Manager to which the refund relates.
 - b) Payee to be identified with reference to a valid document of identity; namely
- NIC, Passport or Driving License.
 - c) Relevant Head of Department or Branch Manager to certify the identity of payee in accordance with 5.8.11(b) above.

9 PAYMENTS CANCELLATIONS

9.1 CHEQUES

Cheque should be cancelled physically immediately when an error or mistake is identified. Stop payments to be arranged with the bank if the cheque has already been released to the payee. Respective cancelled voucher needs to be updated in the GL system by entering cancellation in the system or by passing a journal entry. Cancellations are authorized by AGM Finance.

A fresh payment could be issued only after the first payment has been cancelled and the cancelled cheque to be attached to the fresh payment voucher for authorizing the payment. In the case of a stop payment, a confirmation needs to be obtained from the bank prior to issuing a fresh payment.

10 FUNDS TRANSFERS (SLIPS PAYMENTS AND LCB FINANCE SAVINGS PAYMENTS)

If an error or mistake is identified, the payment vouchers to be cancelled physically by the certifying / Payments officer. Then it is forwarded to the Authorizing Officer for immediate rejection in the respective system. Stop payment needs to be arranged with the bank / Savings Dept. If the payment is already authorized, respective voucher needs to be cancelled in the GL system by entering cancellation or passing a journal entry. Cancellations are authorized by AGM Finance.

A fresh payment could be issued only after the first payment has been rejected in the respective system. The Officer concerned should make sure that the funds were not transferred to the payee's account and also that the funds returned to the company's account.

In the case of funds returned by the bank or CF savings in relation to supplier or other payments, the returned advice together with a confirmation that the funds were returned to the account must be obtained for the purpose of issuing a fresh payment. Cancelled vouchers and cheques need to be filed separately.

11 CUSTODY AND ISSUE OF UNUSED CHEQUES / CUSTODY OF PAYMENTS VOUCHERS

Unused Cheques Bulk stocks of unused cheques in the form of continuous cheque leaves are held with the Stocks other cheques and in the form of bound cheque books are in the custody of the officer in charge of Payments. Such officer will issue to the relevant officer handling the writing / printing of cheques, the continuous cheque leaves for a month's requirement. Time to time the AGM Finance should verify the unused continuous cheques. The continuous cheques issued to the officer in charge of payments shall be retained under lock and key.

12 PAYMENTS VOUCHERS

Payments vouchers will be in the custody of an authorized officer in the Finance Department until they are disposed according to the destruction policy.

13 GENERAL CONDITIONS

This Manual should be revised annually and updated by the officials of the Finance Department, to meet new requirement that may be introduced by the regulatory and statutory authorities in the future and those relating to in-house operations.

Any matter not covered in this Manual should be referred to the CEO/Executive Director for a decision.

Recommended to the Board of Directors to approve this Manual for Adoption

Kelum Wannige
AGM- Finance & Strategic Planning

K G Leelananda
Executive Director / CEO

Date