

in line with action plans under the strategic plan of each department of the Central Bank. The activity-based and functional budget was also prepared along with the budget to show the activity-wise cost and function-wise cost of the Central Bank. This process started in August 2015 and finalised in December 2015. The approval of the Monetary Board was obtained in December 2015 and the budget was made available to the departments on the first day of 2016. Quarterly budgetary performance statements for the year 2015 were submitted to departments and the Monetary Board in the interest of effective monitoring of budgetary control.

### 12.3 Payment System for Internal and External Financial Transactions

- i. All internal payments for employee remunerations, staff loans, operational expenses, etc., were made in 2015 within the time targets.
- ii. All external payments to local and foreign suppliers were made as per the procedures laid down under the standing orders of the Central Bank. During the year 2015, the total payments were 4,599 which included 4,344 to local suppliers and 255 to foreign suppliers.
- iii. Nearly 2,915 disbursements to the General Treasury and relevant projects and 558 installments on repayment of foreign loans were made during the year 2015.

### 12.4 Management of Internal Funds

FD managed 13 internal funds which cover 6 superannuation funds of the staff and pensioners, 3 medical benefit funds and 4 special funds. Managing cash flows, investments of funds, making settlements and payments, keeping books of accounts and preparing annual financial statements are the major functions in this regard. The funds were invested mainly in Government Securities, bank deposits and high rated corporate debentures. The average rate of return on investments of all these funds was 7.31 percent for the year 2015. The audited financial statements of these funds for 2014 were submitted to the Monetary Board as per the rules of those funds.

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### Performance of Funds Management - 2015

Funds	Inflows	Out flows	Investments	Rs. mn	
				Investments Year-end	Average Yield (% p.a.)
Superannuation funds	21,137.60	3,681.54	17,450.12	41,562.90	7.31
Medical funds	58.97	4.52	54.05	1,428.99	7.95
Special funds	1,632.10	25.64	1,603.60	2,812.48	7.18
<b>Total</b>	<b>22,828.67</b>	<b>3,711.70</b>	<b>19,107.77</b>	<b>45,804.37</b>	<b>7.31</b>

### 12.5 Maintaining Fixed Assets Register

FD maintained all records of the fixed assets of the Central Bank in the Fixed Assets Register in the fixed asset module

of the General Ledger System. All changes such as new purchases and locations, change of locations, revaluations, depreciation and disposals were recorded in this register during the year 2015. The register was updated during the year 2015 with 1,192 items procured and 377 retirements.

### 12.6 Maintaining the Data Base of Staff Loans

FD continuously maintained the loan data base of the Central Bank staff with the assistance of the Information Technology Department to facilitate loan recovery record process and to supply information to employees and to the Management during the year 2015.

### 12.7 Other Operations

#### i. Procurement Process

According to the Rules of the Central Bank, the officers of FD are required to attend all Technical Evaluation Committees and Tender Boards for procurement of goods and services and the Board of Survey. Nearly 237 Tender Boards and all Technical Evaluation Committees related to those procurements were attended during the year 2015.

#### ii. Investment Oversight Committee

FD provided secretarial facilities in the Investment Oversight Committee. The Committee was established by the Monetary Board to advise and monitor the investments of several funds managed by several departments of the Central Bank. The Committee chaired by an Assistant Governor supervising the FD is represented by the Heads and other officers of respective fund management departments. The committee had 12 meetings during the year 2015 and reported quarterly to the Monetary Board for ratification of investments. At the end of 2015, the total value of the funds under management was Rs. 65.9 billion. As per new policy approved by the Monetary Board, the Investment Oversight Committee will be replaced by the Investment Committee to be chaired by the Deputy Governor in 2016. Under the new policy, a separate Investment unit will be established in FD to centrally manage investments of all internal funds excluding Employees Provident Fund.

## 13. FINANCIAL INTELLIGENCE UNIT

Financial Intelligence Unit (FIU) established in terms of the provision of the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA) has been operating in the Central Bank of Sri Lanka since March 2007. The key functions of the FIU include collection and receipt of information on financial transactions for the purpose of detecting possible links to Money Laundering (ML), Terrorist Financing (TF) and other related unlawful activities defined in the FTRA, analysis of suspicious financial transactions relating to the above unlawful activities and dissemination of information and

details of such investigations to relevant law enforcement and/or regulatory authorities for appropriate actions. The highlights of key functions and other activities of the FIU during 2015 were as follows.

### 13.1 Conduct of Mutual Evaluation

In line with the revised recommendations of the Financial Action Task Force (FATF) the third round Mutual Evaluation (ME) on Sri Lanka was conducted during 2014/15 by the Asia Pacific Group on Money Laundering (APG) with the intention of assessing Sri Lanka's AML/CFT framework against the FATF standards on Anti Money Laundering (AML) and Countering the Financing of Terrorism (CFT). Sri Lanka had its first ME in 2006. In this second ME on Sri Lanka, AML/CFT legal and institutional framework as well as the effectiveness of the implementation of relevant actions were assessed by a panel of 8 experts from the APG member countries and the APG Secretariat. At the culmination of the ME process, the above mentioned panel of assessors made an on-site visit to Sri Lanka and had discussions with more than 50 institutions representing both public and private sectors. The ME was adopted at the APG plenary held in New Zealand in July 2015 and the APG has recommended series of actions to be implemented by Sri Lankan authorities under 'expedite enhanced follow up' process. Further, the FIU is required to report the progress made to rectify AML/CFT deficiencies identified in the ME, to the APG bi-annually.

### 13.2 Collection of Information, Investigations and Dissemination

Licensed Commercial Banks (LCBs), Licensed Specialised Banks (LSBs), Licensed Finance Companies (LFCs), Stock Brokers (SBs) and Insurance Companies (ICs) continued to report to the FIU on cash transactions and electronic funds transfers (both local and foreign) of Rs. 1.0 million and above or its equivalent in foreign currencies through the FIU's on-line database management system, "LankaFIN". The Authorised Money Changers (AMC) who came under the FIU purview since January 2013 also reported their cash transactions exceeding threshold amount through the Controller of Exchange who monitors and regulates the AMC sector. Accordingly, over 6.09 million of cash/fund transfers and 783 suspicious transactions (STRs) were reported during the year 2015. After conducting financial analyses, 426 STRs were referred to the law enforcement and regulatory authorities for further investigation.

### 13.3 Examinations of Reporting Institutions

During the year 2015, the FIU conducted 10 examinations on reporting institutions mainly covering banking and finance companies to assess their exposure to risk of ML/TF and non-compliances with the provisions of the FTRA and other rules and directions issued by the FIU. Further, the FIU conducted 10 one-on-one meetings with reporting

institutions to provide guidance on the threshold reporting deficiencies identified.

### 13.4 Other Activities

#### i. Moving Towards the Risk-Based Approach (RBA)

The RBA is the key pillar to the effective implementation of the FATF 40 recommendations. The global trend in AML/CFT environment is to use the risk based regulatory approach. During the year, the FIU drafted Customer Due Diligence (CDD) rules that would require Financial Institutions to identify and mitigate ML/FT risk under the RBA, in consultation with all stakeholders.

#### ii. Institutional Capacity Building and Awareness Programmes:

In continued efforts to enhance the awareness on detecting, analysing and reporting of ML/TF related transactions, 15 awareness/training programmes were conducted during the year, accommodating more than 980 participants from LCBs, LSBs and LFCs. This includes two large-scale capacity building and awareness programs conducted at Trincomalee and Hambantota for participants from Financial Institutions and Sri Lanka Police. Further, in 2015 the FIU conducted a special programme for a team of officers from the Bangladesh FIU to provide the technical know-how in conducting a ME. The annual symposium on AML/CFT was also conducted for the Compliance Officers of around 190, representing the LCBs, LSBs and LFCs during the year.

#### iii. International Relations:

- a). Egmont Group : The FIU obtained assistance from members of the Egmont Group, the Association of the FIUs consisting of 151 member FIUs globally to exchange information to carry out investigations and collaborated with the member countries gathering evidence on their investigations. Total number of instances that FIU exchanged information with foreign Egmont members stood at 19 in the year 2015.
- b). Asia Pacific Group on Money Laundering: Sri Lanka, as a founder member of the APG, attended its 18th Annual Meeting held in Auckland, New Zealand in July 2015 and the 18th Annual Typologies and Technical Seminars held in Nepal in November 2015. Sri Lanka as the incoming co-chair of the APG for 2016/2018 period, is preparing to conduct the annual APG Plenary in Colombo in 2017.

#### iv. Signing of Memorandums of Understanding:

As a mechanism to facilitate sharing of information and intelligence for the purpose of investigation and prosecution of suspicious transactions, in terms of provisions of the FTRA, the FIU signed a Memorandum of Understanding (MOU) with Financial Intelligence Unit of Kyrgyz Republic during the year. Accordingly, the total number of such MOUs signed increased to 28 as at end of 2015.