

## **Employees' Trust Fund Board – 2012**

### **1. Financial statements**

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#### **1:1 Qualified Opinion**

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In my Opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the Employees Trust Fund as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **1:2 Comments on Financial Statements**

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##### **1:2:1 Sri Lanka Accounting Standards**

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In terms of Section 34 of Sri Lanka Accounting Standards 16, Assets should be revalued at least once in 3 years or 5 years in order to identify whether the fair value is materially changed or not changed from carrying value. Nevertheless, the fixed assets of the Board valued at Rs. 188,241,276 had not been so revalued.

##### **1:2:2 Contributions not credited to members' accounts**

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Even though the balance of the contributors Fund Account as at 31 December 2012 had been disclosed in the financial statements as Rs. 153,631,425,664 the actual amount credited to the members' account was Rs. 143,079,139,946. The amount received to the Fund as at that date but not credited to the members' accounts amounted to Rs. 10,552,285,718 of this amount, a sum of Rs. 4,099,849,873 had been received during the last 32 years but it had not been credited to the relevant members Accounts. even by 31 December 2012. The balance of Rs. 6,452,435,845 had been the interest to be credited to the members' accounts from time to time on their contributions. An age analysis of contributions which had not been accounted up to now is given below.

<b>Age analysis of balance received but not credited to members account</b>	<b>Amount of contributions not yet accounted</b>
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	<b>Rs.</b>
01 to 05 years	2,170,507,917
05 to 10 years	824,534,055
10 to 15 years	417,178,073
15 to 20 years	226,346,967
20 to 25 years	240,248,355
More than 25 years	<u>221,034,506</u>
Total	4,099,849,873
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The chairman of the Board had given the following explanation as a reply to this issue. “Members particulars relating to the contributions paid to the fund once a month are received by the Fund once in one month and 06 months, accounting for members contribution is done on 28 th February of the following year, reasons for such delays of accountings are that employers do not give employees particulars relating to the contribution to be credited, data given is not clear, difficulty to apportion due to the payment of cash by several institutions by one cheque; unable to obtain information relating to previous period due to change of the management, complications in the names of estate workers and non rendition of details of dormant members although money was paid etc. He further explained that until the members contributions to be accounted from time to time, the interest thereon could not be credited to members account.

### 1:2:3 **Accounts receivable and payable**

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The following observations are made.

- (a) The balance of the unclaimed death benefits account brought forward since 1995 and the balance of the refundable benefit account brought forward since 2001 had been continuously increased up to Rs. 7,573,890 and Rs.13,905,162 by the end of the year under review. The Chairman of the Board had explained as follows as a reply to this issue “There are more beneficiaries than one to receive the benefits after the members death and they do not present at once, unavailability of sufficient written information, a sum of Rs.391,744 had been paid to 5 beneficiaries in the year 2013 from the balance of unclaimed benefit account which had been retained until the correct beneficiary was

determined and a sum of Rs. 3,257,115 had been paid in the 2013 from the balance of refundable benefit account which had been retained until the rectification of applicants' bank accounts with errors".

- (b) The balance of the refundable benefit account amounting to Rs. 5,149,573 as at 31 December 2012 which had been increasing since 2001 had not been settled. The Chairman of the board had stated in his reply that this represent the value of cheques which had been paid to applicants but not presented to bank and a sum of Rs.468,728 had been paid to 22 applicants of benefit out of this balance during the year 2013.
- (c) Out of the overpayment made to an officer in the Board in paying a vehicle loan in the previous year, the unrecovered balance even up to the end of the year under review amounted to Rs. 61,770.
- (d) The balance further recoverable from 18 officers who had left the service 1 to 13 years ago amounted to Rs. 260,281 as at 04 October 2013.
- (e) The outstanding amount recoverable due to delay in the postal Department, as ETF Contributions sent by money orders was Rs. 1,218,909 as at 04 October 2013.

**1:2:4 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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Instances of non-compliance with the following laws, rules, regulations observed in audit are given below.

**Reference to Laws, Rules, Regulations and Management Decisions**

**Non-compliances**

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- (a) Section 1:1:6 and 2.3 of public Administration Circular No.22/99 dated 08 October 1999.

Contrary to these regulations, the full expenditure incurred by the Board during the year under review for the 9 officers' private visits amounted to Rs. 4,108,740.

- (b) **Public Administration and public Enterprises Circulars:**

Circular No. 130 dated 18 March 1998 of the Department of Public Enterprises, Public Administration Circular No.26/47 dated 19 November 1997 and Section 19 of the committee minutes of COPE meeting No. 56 dated 18 October 2011.

Although it was stated that loans shall not be granted to the employees of state Corporations and Statutory Board at the interest rate of 4.2 per cent, the Board had granted loans to its employees at that rate and less than that rate, contrary to the above provisions. A loan balance of Rs. 413,101,257 was recoverable as

- at 31 December 2012 from loans granted under the above interest rates.
- (c) Public Enterprises Circular No. PED/12 of 06 June 2003
- (i) Section 8.7
- (ii) Section 9.12
- PAYE tax amounting to Rs. 1,310,687 relevant to 2012 to be recovered from officers on their employment income and to be remitted to the Commissioner General of Inland Revenue had been remitted to the Commissioner General of Inland Revenue from the Board's Fund without being recovered from employees.
- Although the Welfare Programme introduced by the Board should be approved by the public Enterprises Department and the Treasury, a sum of Rs. 16,847,846 had been incurred on Welfare Programmes for which such approval had not been obtained.
- (d) Public Finance Circular No. PF/PE5 dated 11 January 2000 and minutes No. 16 of the 56 th COPE meeting held on 18 October 2011.
- Without the approval of the General Treasury incentives amounting to Rs. 81,067,392 had been paid during the year under review. It was informed at the COPE meeting to rectify this issue.
- (e) Management Services Circular No. 47 of 22 December 2011.
- Contrary to the Sections 1 and 2 of this circular, bonus amounting to Rs. 48,727,577 had been paid during the year under review. If the bonus is paid outside the provisions in section 8 of this circular, the prior approval of the Cabinet of Ministers should be obtained but the Board had not taken action accordingly.
- (f) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
- Reports on losses in respect of 45 vehicle accidents had not been reported to the Auditor General.

**1:2:5 Lack of Evidence for audit**

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Verification reports relating to fixed assets valued at Rs. 390,537,752 as at 31 December 2012 to establish the physical existence were not made available for audit.

**1:2:6 Transactions not supported by adequate Authority**

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The following observations are made.

- (a) Approval of the Ministry of Finance or the Treasury had not been obtained for the financial procedure manual implemented since 1999 by the Board on the approval of the Board Directors. This financial procedure manual had included provisions, outside the provisions of the Establishments Code and the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.
- (b) Without obtaining the approval of the Treasury Uniform cloths had been given to officers of the Board since 1993 and the expenditure incurred during the year under review on this amounted to Rs. 6,236,582. The expenditure so incurred during the past 5 years without the said approval amounted to Rs. 36,575,879.

**2. Financial Review**

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**2.1 Financial Results**

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Operation of the Board for the year under review had resulted in a surplus of Rs.12,147,948,316 as compared with the surplus of Rs. 11,307,220,814 for the preceding year. Accordingly the increase in the surplus for the year as compared with the preceding year amounted to Rs. 840,727,502. Increase in interest income, dividend income and the increase in value in the adjustment of net present value had been the reason for the increase of surplus.

## 2:2 Analytical Financial Review

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 The following observations are made.

- (a) Even though the surplus for the year under review had increased by 7.44 per cent as compared with that of the previous year, the benefits given to the members had remained unchanged as 10 per cent. Particulars of benefits so given to members from 2008 to 2012 are given below.

<b>Year</b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>
Benefits given to members	10%	10%	12.5%	13%	12%

- (b) **Right of the members of the Fund, total contributions and variances during the 5 years in the accumulated value of stated interest.**

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 The total right of the members and their total contributions and the manner how the accumulated interest is distributed among them are given below for the period of 5 years.

<b>Year</b>	<b>Total Contribution</b>	<b>Accumulated Interest</b>	<b>Members' right</b>
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	<b>Rs.Mn.</b>	<b>Rs.Mn.</b>	<b>Rs.Mn.</b>
2008	44,301	44,568	88,869
2009	49,834	53,223	103,057
2010	56,616	63,236	119,852
2011	64,054	71,432	135,486
2012	72,773	80,858	153,631

According to the above information, 47 percent and 53 per cent of the total rights of the members represented contributions and the accumulated interest respectively by the year 2012. Similarly the total members' right and the total contributions had increased by 13.39 per cent and 13.61 per cent respectively in the year 2012 as compared with the year 2011.

### 3. Operating Review

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#### 3:1 Performance

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##### 3:1:1 Operating Performance

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The following observations are made.

(a) The position of performance as at the end of the year 2012 is given below.

Particulars	Actual	Statistics relating to operation of the Fund	As a Percentage
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			%
Employment in the Private Sector and semi-Government Sector	3,832,840	2,200,000	57.4
Employers	227,612	70,194	30.84
Number of accounts of Members (Million)	9.8	2.2	22.45

A sufficient procedure had not been formulated by the Board to enroll 2,593,151 self-employees in the employment sector in Sri Lanka at the end of 2012 and to facilitate them.

The Chairman of the Board had given the explanation as follows as a reply to this observation. “As a formal scheme of enrolling self- employees to this Board as members is being implemented by utilizing the Divisional Offices net work, it was expected an improvement of self-employees membership of the Fund by the end of the year 2013 and there is an obstruction to improve the scheme as the self-employees have to pay contributions to the Fund personally by themselves”.

(Source : Central Bank report for the year 2012)

- (b) Information relating to the scheme of awarding scholarships implemented by the ETF during the past 5 years is given below.

Year	No. of members actively contributed to the Fund	No. of members whose children obtained scholarships	Cost of 5 <sup>th</sup> year scholarships	Cost of A/L scholarships	Total cost of scholarships
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			Rs.	Rs.	Rs.
2008	2,100,000	2,497	26,084,760	-	26,084,760
2009	2,100,000	3,000	46,811,006	-	46,811,006
2010	2,100,000	3,000	45,385,680	-	45,385,680
2011	2,100,000	6,669	74,051,599	23,640,000	97,691,599
2012	2,200,000	6,962	75,775,685	23,604,000	99,379,685

Although the Board had taken action to award such scholarships only to a limited number of students such as 22,128 out of the funds of 2,200,000 overall members during the past 5 years, the Board had not paid attention to improve the education level of members' children who are unable to continue their education.

### 3:1:2 Investment and Investment Income

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Investment of Rs.135,099 million as at the beginning of the year under review had increased to Rs. 150,000 million as at the end of the year under review after being adjusted purchases and maturities.

The following observations are made in this connection.

#### (a) Short Term REPO Investment

Even the interest paid for the Treasury bills for 364 days in the year 2012 had not been received by the Board on a deposit of Rs. 500,000,000 made in a state Bank which provides services to the Board as an ex-gra-tia rebate on a long term bilateral agreement since 2006 stated as a short term REPO investment. As a result the income deprived by the board for the year 2012 approximately Rs.12,011,821. The Chairman of the Board has stated in his reply that the Investment of this Rs.500,000,000 had been renewed in the relevant Bank in



fixed deposits in 2 times as Rs.10 million and Rs.490 million at the interest rates of 15 per cent and 12 per cent in March and August 2013 respectively.

(b) **Share Market Investments**

The following observations are made in respect of investment of Rs. 8,620,461,119 made in 115,385,085 shares as at 31 December 2012 by the Employees Trust Fund as portfolio 1 and 2.

- (i) The Board had invested a sum of Rs. 8,013,793,452 in 107,312,668 shares in the 83 companies listed in the stock market as at 30 June 2013 as Portfolio 1 and 2. Of this investment value of shares of Rs. 6,333,036,059 made in 68 companies in 83,036,582 shares had declined to Rs. 4,864,387,677 in the stock market by Rs. 1,468,648,382.
- (ii) The Colombo stock exchange had faced slight drawback in the year 2012 and the decrease in investment income received in the year 2012 as compared with the years 2010 and 2011 is shown below.

Year	No. of Companies	No. of Shares	Amount invested as at 01 January	Investment income received	Percentage of income
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			Rs.	Rs.	
2010	116	41,549,265	2,719,819,864	1,308,502,652	48.1
2011	130	78,211,481	5,204,377,279	703,052,274	13.5
2012	107	101,959,123	7,713,939,116	324,179,030	4.2

If this money was invested in treasury bills in the year 2012, deprivation of estimated income to the Board on the basis of income receivable from Treasury Bills amounted to Rs. 577,580,453. As a reply to this observation, the Chairman of the Board had stated that benefit as well as risk in the investment of share market is very high but the benefit should be considered in the long run and more benefits had been obtained when the share market had gone up.

- (iii) Any income from the investment of Rs. 226,125,038 made in 13,046,750 Shares in the 25 companies during the year 2012 as investment portfolio 1 and 2 had not generated by the Board. A details of the invested companies from which no such income was received during the past 3 years is given below.

Year	Number of Companies	Number of Shares invested	Amount of investment
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			<b>Rs.</b>
2010	17	4,111,468	119,083,880
2011	18	7,683,979	163,867,080
2012	25	13,046,750	226,125,038

- (iv) Irrespective of continuous decrease in receiving income from investment in shares and declining the prices in share market 23,240,912 of new shares from the share market had been purchased during the year 2012 from 42 quoted companies valued at Rs. 1,810,894,725. Out of the new shares of 8,030,618 valued at Rs.879,359,901 so purchased from 26 companies on 30 June 2013 the value at the share market had decreased by Rs. 248,609,303.
- (v) The Board had invested a sum of Rs.485,834,544 in 4,067,500 shares during the period from 1997 to 1999 in 3 unquoted companies. The income received and income percentage in the year 2011 and 2012 for these 3 companies are given below.

Company	Investment	Income	<u>2011</u>		<u>2012</u>	
			Percentage	Income	Percentage	Income
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	<b>Rs.</b>	<b>Rs.</b>	<b>%</b>	<b>Rs.</b>	<b>%</b>	
1	14,248,606	Nil	-	Nil	-	
2	625,000	93,750	15	93,750	15	
3	<u>470,960,937</u>	<u>12,600,000</u>	<u>2.67</u>	<u>12,600,000</u>	<u>2.67</u>	
<b>Total</b>	<b>485,834,544</b>	<b>12,693,750</b>	<b>2.61</b>	<b>12,693,750</b>	<b>2.61</b>	
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The overall income percentage earned annually on these investments made in the quoted companies was 2.61 per cent Income from one company which invested a sum of Rs. 14,248,606 therein was not received for the years 2011 and 2012. There

was a risk that the capital invested and the capital profit thereon could not be returned as these shares could not be used to transact in the share market.

- (vi) The investment policy of the Board effective since September 2006 had been again revised on 01 December 2012. The following observations are made in this regard.
- Instead of executing the powers vested in the Board under section 8(a) and (b) of the Employees Trust Fund Act, No. 46 of 1980 by involving directly. It was a questionable issue in delegating the authority to the staff members of the Board in share market transactions carried out in speculative thought, by section 4.1(b) of September 2006 and section 4.2(a)(xi) of December 2012 in the investment policy statement.
  - It was observed that instead of section relating to the approval of the sale of shares and units at a loss, mentioned in 'A' in Annexures a problematic section had been included in this policy statement to sell shares and units at a loss except including sections that shares could be sold at a loss on the approval of the Board of Directors and Sanction of the Treasury under the approval of this policy statement, shares in a certain company had been sold by incurring a loss of Rs. 16,429,168 in the year 2010.
- (vii) Two companies in which a sum of Rs. 25,227,541 had been invested in 624,570 shares had been under liquidation and a company in which a sum of Rs.4,066,314 had been invested in 178,700 shares had been terminated from the list of quoted companies. As a result, the invested amount of Rs. 29,239,855 or any income there from could not be ascertained since the year 2000 by the Board.
- (viii) The invested amount in 06 companies where transaction had not been made in the stock market for periods ranging from 1 1/2 years to 14 years as at 31 December 2012 amounted to Rs.93,074,734. As this investment was not transacted in the share market, the Board was unable to ascertain any return on these investments.
- (ix) The investment made in the stock market as at 01 January 2011 amounting to Rs. 5,204,377,279 had increased to Rs.7,713,996,715 by 01 January 2012. Nevertheless, the reduction in capital gain from sale of shares during the year under review as compared with the previous year amounted to Rs.430,572,328 representing the reduction of 77.6 Per cent.
- (x) Out of the invested amount of Rs.7,228,104,572 in 104 companies as at 01 January 2012 as portfolio 1 and 2, 76.64 per cent or Rs. 5,539,965,503 had been invested in 22 companies. The following observations are made in this connection. The percentage income received on overall investments made in those 22 companies amounted to 4.28 and except 6 companies the Board had realized an income from other 16 companies as low as 0.17 per cent to 4.28 per cent. The chairman had stated as a reply to this issue that as the capital gain could not be obtained the income percentage receivable had decreased.

- (c) The Board had failed to recover the investment interest receivable since 10 years ago amounting to Rs. 27,854,580 from 2 companies in which investments had been made in debentures and promissory notes even up to 30 June 2013. The chairman had stated in his reply that this money could not be recovered as one company had faced financial difficulties and legal action had been initiated against the other company.
- (d) An investment of Rs. 10,000,000 had been made for the purchase of 1,000,000 units in a certain unit Trust in the year 1997. However, any return whatsoever on this investment had not been received by the Board from the date of purchase to the year under review. However, if this money had been invested in the Treasury Bill, an estimated income of Rs. 1,169,000 would have been earned only for the year 2012.

### **3:2 Management Inefficiencies**

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The following observations are made.

- (a) As purchases had not been made after being properly identified the requirement, the value of unused uniform material remained in the stores as at the end of the year under review amounted to Rs.2,183,775. Action had not been taken to dispose the stock of this uniform carried since 2008 even up to the end of the year under review.
- (b) A motor vehicle purchased at Rs. 2,090,600 in the year 1998 had been sold to Rs.832,000 in the year 2012 after calling for quotations without getting a government valuation. At the time of selling this vehicle, its market value was determined as Rs. 1,300,000 according to a valuation given by a valuation company.

### **3:3 Operating Inefficiencies**

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Due to breach of agreement entered into with a certain company without consulting the Attorney General, a sum of Rs.21,900,000 had to be paid to the prosecuting company by an appeal court order as a defendant party. As a result of an appeal made in this connection, the value of bank guarantee deposited in the court by that company had been brought to accounts as a receivable amount. This judicial process had not been finalized even by 30 June 2013.

The payment of this money had been made on an unfavourable judicial process and as such there was an uncertainty in getting back this money.

### **3:4 Identified Losses**

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Three motor vehicles of similar type purchased in June 2009 at Rs.4,473,200 had been sold at Rs.1,901,000 on a valuation of a private institution at Rs.1,900,000 during the period nearly 3

years from the date of purchase by calling from Tenders. The loss incurred on this sale amounted to Rs.363,590.

**3:5 Expenditure contrary to objectives**

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A loan of Rs. 2,000,000 had been granted to the sports society operated by the officers of the Board in the year under review without entering any agreement and without getting the Treasury approval, contrary to the objectives to the Board.

**3:6 Transactions without authority**

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Overtime had been computed at the rate of 1 ½ hours for one hour and added a day's pay after completing 08 hours of work on Saturdays/Sundays and public Holiday stating that the Board is operated under Shop and Office Ordinance. As a result, the overtime cost in the year 2012 had become Rs. 16,986,225. An Officer should serve 5 ½ days a week to ascertain overtime allowance in terms of the Act and the annual leave is limited to 21 days Contrary to that, officers are allowed to entertain an annual leave of 42 days and 5 days per week.

**3:7 Resources given to other Government Institutions**

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Contrary to section 8.3.9 of the Public Enterprises Circular No. PED/12 dated 06 June 2003 and the 9 th schedule in appendix 11 of F.R. 502(2), the cab bearing No. PB 1089 belonging to the Board valued at Rs.6,189,922 had been given to the President Secretariat without proper transfer, and a sum of Rs. 384,578 had been spent for repairs and service of this vehicle by the Board during the year 2012 while it was in the Presidential Secretariat. A sum of Rs. 646,868 had been spent for repairs of this vehicle during the year under review.

**3:8 Establishment of a fund for the employees gratuity**

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The provision for gratuity amounting to Rs. 90,119,163 as at the end of the year under review had not been invested as a separate Fund.

**3:9 Vehicles Utilization**

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The Board had not taken action to recover the loss of Rs.214,665 incurred on 2 vehicles met with accidents during the year under review from the insurance or from the parties responsible for the accidents. Expenditure estimate for the repair of another 3 vehicles met with accidents had also not been prepared.

**4. Accountability and Good Governance**  
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**4:1 Procurement Plan**  
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Except the cost of head office building complex expected to be incurred, the variance between the actual purchases and the total cost of procurement plan had been nearly 50 per cent. Therefore it was observed that future cash forecasts based on such planning would not be effective.

**4:2 Internal Audit**  
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An internal audit covering the significant areas had not been carried out in terms of F.R. 133(2).

**4:3 Budgetary control**  
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In comparing the budgeted expenditure of the Board with actual expenditure, considerable variances were observed and as such more attention should be paid in respect of using the annual budget as an effective management tool.

**5. Systems and Controls**  
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Weaknesses in systems and controls were brought to the attention of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Accounts receivable and payable
- (c) Periodical amendments to be made to the prevailing Act.
- (d) Investments