

Employees' Trust Fund Board - 2013

The audit of financial statements of the Employees' Trust Fund Board for the year ended 31 December 2013 comprising the statement of the financial position as at 31 December 2013 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 (1) of the Employees' Trust Fund Board Act, No. 46 of 1980. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 10 (7) of the Employees' Trust Fund Board Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with the International Standards of the Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Section 10 (1) of the Employees' Trust Fund Board Act, No. 46 of 1980 give powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Employees' Trust Fund Board as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

- (a) An assessment should have been made to find out whether there is any objective evidence that a financial asset or group of financial assets is impaired at the end of each reporting period in terms of the Sri Lanka Accounting Standard 39 and a risk assessment should have been made for each investment as well. However, contrary to it, out of the investments made in the share market, sums totalling Rs. 1,635,768,000 including a sum of Rs. 1,506,639,000 as at 01 January 2013 and Rs. 129,129,000 as at 31 December 2013 had been written off against the cost of the shares purchased, on the basis of the drop in the prices in the share market. Further, in writing off the prices of shares, the portfolio of the Board existing from the year 2002 had been shown under the category of the fair value from profit or losses without proper identification.
- (b) Even though the assets which are being depreciated under the reducing balances method but used further over a period of 25 years had existed in the fixed assets costing Rs. 183,067,000 of the Board, a revaluation in terms of Section 34 of the Sri Lanka Accounting Standard 16 had not been made to show the fair value thereof.
- (c) Disclosure of related party information of the Board of Directors and the Management of the Board had not been made in the financial statements in terms of the Sri Lanka Accounting Standard 24.

2.2.2 Going Concern

Percentage of the declared annual benefits had been consistently maintained as 7 per cent from the year 2011 to the year 2013 except for the compulsory interest of 3 per cent given to the members by the Board. An adequate annual operating surplus was not available with the Board for declaring this dividend benefits and thus, the necessary provisions of Rs. 746 million, Rs. 2,089 million and Rs. 446 million had been made from the year 2011 to the year 2013 respectively from the Dividend Equalization Reserve and retained profits of the preceding years. In addition to that, the un-realized profits amounting to Rs. 2,596 million had been utilized to pay dividends in the year under review as indicated in paragraph 2.2.6. Accordingly, it appears that this Fund is deteriorating gradually under such circumstances.

2.2.3 Contributions not credited to Members' Accounts

Even though the balance of the Members' Fund Account as at 31 December 2013 had been disclosed in the financial statements as Rs. 174,252 million, the actual amount credited to the Members' Account as at that date amounted to Rs. 151,948 million. The amount received to the Fund as at that date but not credited to the Members' Accounts even by 17 June 2014 amounted to Rs. 22,304 million and of this amount, a sum of Rs. 9,496 million had been received over a period of about 33 preceding years and represented members' contributions not credited to the relevant Members' Accounts even by 17 June 2014. The balance of Rs. 12,808 million had been the interest which should be credited to the Members' Accounts from time to time relating to the contribution mentioned above. An age analysis of those amounts which had not been credited to the Member's Accounts even by 31 December 2014 is given below.

Age Analysis of balance received but not credited to Members' Accounts	Amount of contributions not yet brought to account
Rs. Millions	
01 to 05 years	7,553
05 to 10 years	814
10 to 15 years	425
15 to 20 years	231
20 to 25 years	215
More than 25 years	258

Total	9,496 =====

The balance not credited to the Members' Accounts in the preceding year amounted to Rs. 4,100 million and it had increased up to Rs. 9,496 million in the year under review. It had been shown that the amounts received as contributions to the Members' Fund Account annually but not credited to the Members' Fund Accounts had increased from year to year. It was observed that adequate attention had not been paid to rectify it.

2.2.4 Accounting Deficiencies

The following observations are made.

- (a) Even though an interest not less than 3 per cent of the total earnings from investments should be credited to the Personal Accounts of the members of the Fund annually in terms of the Fund Act, the operating surplus of the year under review had been overstated by

Rs. 4,752,333,000 due to non-accounting of the interest of Rs. 4,752,333,000 equivalent to 3 per cent in the year under review as an operating expenditure.

- (b) The sum of Rs. 171,962,000 credited to the comprehensive income statement as capital profits is not a profit computed on the cost as at 01 January 2013 and as a result, the comprehensive income of the year under review was not accurate.
- (c) A sum of Rs. 29,293,854 invested in 803,270 shares of 02 companies subjected to liquidation and of a company removed from the official list, had not been represented in the financial statements of the balance sheet as it had been set off against the provisions relating thereto without obtaining approval to write off the amount from accounts.
- (d) Tax refunds, tax over-provisions and adjustments of Members' Accounts amounting to Rs. 454,624,000 for the preceding year had been taken into consideration as income of the year under review instead of being adjusted retrospectively.

2.2.5 Transactions not supported by Adequate Authority

Dividends should have been declared from the profits earned from investments of the Fund in terms of Section 14 of the Employees Trust Fund Act, No.46 of 1980. However, instead of utilizing the actual interest income of Rs. 10,251,865,269 receivable for the year under review for a sum of Rs. 137,546,313,369 invested in the Treasury Bonds of the Central Bank of Sri Lanka as at 31 December 2013, to pay members' dividends of the year under review, it was revealed that unrealized profit amounting to Rs. 2,595,533,063 had been utilized to pay members dividends by using effective interest amounting to Rs. 12,847,398,332 contrary to the provisions of the Act.

2.2.6 Lack of Evidence for audit

The following audit evidence had not been made available for audit.

- (a) Reports prepared relating to the cost of shares for investment of Rs.8,805,181,220 made in 109,134,215 shares in the share market as at 01 January 2013 by the Trust Fund Board.
- (b) Boards of Survey Reports relating to fixed assets valued at Rs. 409,742,000 as at 31 December 2013 to verify the physical existence.
- (c) The Investment Policy Statement of the Board had not been subjected to approval of the General Treasury. The approval of the General Treasury with the concurrence of the relevant Minister to write off the investments of Rs. 1,635,768,000 from the books and to sale shares for the loss.

2.3 Accounts Receivable and Payable

The Board had not taken action even by 31 December of the year under review to settle the members contributions totalling Rs. 31,396,526 comprising the unclaimed death benefits of Rs. 8,597,637 increasing continuously since the year 1995, the retained benefits of Rs. 13,969,151 brought forward since the year 2001, unclaimed benefits of Rs.5,182,506 and the contributions received from Money Orders from the Postal Department amounting to Rs. 3,647,232.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with the following laws, rules, regulations and management decisions were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions

Non-compliance

(a) Circulars and Letters of the Department of Management Services

(i) Paragraph 02 of the Letter No.
DMS/C2/2/42 of 05 February 2013

New salary scales approved by the Board of Directors had been implemented with effect from 01 May 2013 contrary to the Scheme of Recruitments and Promotions approved by the Department of Management Services.

(ii) Paragraph 06 of the Letter No.
DMS/C2/2/42 of 12 July 2012

Even though the post of the Secretary to the Board of Directors had been abolished, contrary to it, the contract period of the Secretary to the Board of Directors, employed on contract basis had been extended by the Board of Directors from October 2012 without the proper approval of respective parties.

(iii) Section 4.3 of the Management
Services Circular No. 2013/01 (1) of
09 December 2013

Contrary to the Circular, bonus amounting to Rs. 58,847,962 had been paid to the employees of the Board in the year under review without the approval of the Cabinet of Ministers.

(b) Public Enterprises and Public Administration Circulars and Minutes of Committee on Public Enterprises Meetings

(i) Circular No. 130 dated 18 March
1998 of the Department of Public
Enterprises, Public Administration
Circular No.26/47 dated 19

Even though it was stated that loans shall not be granted to the employees of Corporations and Statutory Boards at the interest rate of 4.2 per cent, the Board had granted loans to its employees at that rate

November 1997 and Paragraph 19 of the Minutes of Committee on Public Enterprises meeting No. 56 dated 18 October 2011.

and less than that rate, contrary to the above provisions. Loans granted at such interest rates amounting to Rs. 523,400,978 remained receivable as at 31 December 2013.

The Chairman informed me that the Deputy Secretary to the Treasury had, by his Letter dated 10 November 2014, informed that the Minister of Finance and Planning had granted the approval after due consideration of the difficulties the Employees Trust Fund would encounter if these payments are suspended.

(ii) Section 8.7 of the Public Enterprises Circular No. PED/12 of 06 June 2003

The Pay As You Earn Tax amounting to Rs. 2,083,969 relating to the year under review had been remitted to the Commissioner General of Inland Revenue from the Board's Fund without being recovered from the employees' personal earnings.

(iii) Section 8.7 of the Public Enterprises Circular No. PED/45 of 02 October 2007

The statement of responsibility of the management for the preparation and presentation of accounts had not been shown in the financial statements.

(iv) Public Finance Circular No. PF/PE 5 dated 11 January 2000 and paragraph 16 of the Minutes of the Meeting No. 56 of the Committee on Public Enterprises held on 18 October 2011.

A sum of Rs. 83,529,063 had been paid as incentives in the year under review contrary to the Order of the Committee on the Public Enterprises and without the approval of the General Treasury.

The Chairman informed me that the Deputy Secretary to the Treasury had, by his Letter dated 10 November 2014, informed that the Minister of Finance and Planning had granted the approval after due consideration of the difficulties the Employees Trust Fund would encounter if these payments are suspended.

(c) Treasury Circular No. 1024/600/29 CD of 12 December 1963

The approval of the General Treasury had not been obtained for the Financial Code of the Board implemented since the year 1999.

3. Financial Review

3.1 Financial Results

Operations of the Board for the year under review had resulted in a surplus of Rs.15,368 million as compared with the surplus of Rs. 12,148 million for the preceding year thus indicating an increase of Rs. 3,220 million in the financial result of the year under review. However, if the matters referred to in this report and 2.2.4(a) and 2.2.5 had been adjusted to the surplus of the year, the surplus of Rs. 15,368 million could have been reduced by Rs. 7,348 million or 48 per cent.

3.2 Analytical Financial Review

the total entitlement of the members during the 06 preceding years and the manner of distribution of such total entitlement as the total contributions and the accumulated interest are given below.

Year	Total Contribution	Accumulated Interest	Members' Entitlement as at 31 December
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	Rs.Millions	Rs.Millions	Rs.Millions
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
2013	82,653	91,599	174,252

According to the above information, 47 per cent and 53 per cent of the total entitlement of the members represented contributions and the accumulated interest respectively by the year 2013. The total members' entitlement and the total contributions had increased by 13.42 per cent and 12.54 per cent respectively in the year 2013 as compared with the year 2012.

4. Operating Review

4.1 Performance

The following observations are made.

(a) The position of the performance of the Board as at the end of the year 2013 is given below.

Particulars	Actual Number	Statistics relating to performance of the Fund	As a Percentage
Employment in the Private Sector and Semi-Government Sector Employers	3,661,132	2,200,000	60.09
Number of Accounts of the Members of the Fund (Millions)	252,540	72,145	28.57
	10.0	2.2	22.00

Source:- Report of the Central Bank of Sri Lanka-2013

Even though the Report of the Central Bank of Sri Lanka for the year 2013, reported 2,710,596 persons engaged in self-employment in Sri Lanka at the end of the year 2013, the Board had not taken adequate action to enroll them as members of the Fund and to grant relief for them.

(b) Information relating to the scheme of awarding scholarships implemented by the Board during the period of 06 preceding years is given below.

Year	Number of members actively contributed to the Fund	Number of members whose children obtained Scholarships	Cost of Grade Five Scholarships	Cost of Advanced Level Scholarships	Total cost of Scholarships
			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
2013	2,200,000	6,982	84,124,844	17,888,234	102,013,078
	2,200,000	29,110	352,233,574	65,132,234	417,365,808

Out of the Fund of the overall membership of 2,200,000, the scholarships had been awarded only to a limited number of 29,110 students during the period of 06 preceding years. The Board had not paid attention even by the end of the year under review to improve the education level of members' children who are unable to continue their education and to make proper arrangement to make them aware of it.

(c) According to the Board as at 31 December 2013, the active statistical data such as the overall number of members, number of Active Accounts and employers of the Employees' Trust Fund as compared with the active data of the Employees' Provident Fund are given below.

	According to the Employees' Provident Fund	According to the Employees' Trust Fund	Percentage of variance
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Total Number of Members' Accounts	14,987,000	10,000,000	67
Number of Active Accounts for which contributions are sent at present	2,350,000	2,200,000	94
Number of Employers	70,392	72,145	102
Percentage of Benefits paid in the year 2013 with the interest (per cent)	11.0	10.0	91

Source:- Report of the Central Bank of Sri Lanka - 2013

Even though more contribution than the Employees' Provident Fund should be obtained in enrolment of new members to the Board, the Board had not reached those targets at the end of the year under review.

4.2 Investments and Investment Income

The following observations are made.

- (a) The debenture interest amounting to Rs. 27,497,905 receivable for the year 2006 and for the previous period from 2 companies had not been received to the Board even by 31 December in the year under review.
- (b) Even though a sum of Rs. 7,450,259 invested in listed debentures in 4 companies in the year 2006 should be realized on 09 December 2007, the money for those debentures had not been recovered even by 31 December 2013.
- (c) Shares in 6 companies had been sold at a price less than the cost in the year under review thus indicating a loss of Rs, 22,334,639.
- (d) The Board had invested a sum of Rs. 2,076,800 for purchase of 188,800 shares in a computer company and the auditors of that company had commented that there was an uncertainty in the going concern of the company due to reasons such as continuous drop in liquidating of the company and sustaining a loss of Rs.478 million in the year of accounting 2012/13. As such, there was an uncertainty in recovering the invested money.
- (e) Details on investment made in the share market, income received from the investment and percentage of income in the years 2011, 2012 and 2013 are given below.

Year	Number of Companies	Number of Shares	Amount invested as at 01 January	Investment income received	Percentage of income
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			Rs.	Rs.	
2011	130	78,211,481	5,204,377,279	703,052,274	13.5
2012	107	101,999,123	7,713,939,116	324,179,030	4.2
2013	88	109,134,215	8,085,181,220	434,987,432	5.38

This money could have been invested in the Treasury Bills at an annual interest rate of 11.11 per cent approximately in the year 2013, and as such, deprivation of income to the Board amounted to Rs. 463,276,202.

(f) The Board had invested a sum of Rs. 10,000,000 for the purchase of 1,000,000 units in a Unit Trust Fund in the year 1997. However, any return whatsoever on this investment had not been received by the Board from the date of commencement to the year under review. However, if this money had been invested even at a minimum interest rate of 5 per cent during the relevant period, the estimated income of Rs. 12,920,000 approximately which could have been earned, had been deprived of.

(g) Even though 3,302,188 shares of a Telephone Company purchased from a period before the year 2007 had become an investment of Rs. 110,340,299 as at 31 December 2013, the Board was unable to earn the capital profits on this investment as this investment had not been used for transactions in the share market during the 7 preceding years. The dividend income received for the year 2013 on this investment had been Rs. 2,526,174 or very low percentage of 2.29 per cent.

(h) The Board was unable to earn the capital profits or dividend income as at 31 December in the year under review from the investment of Rs. 2,550,000 made in 30,600 shares in a Finance Company due to rapid decline of prices in the share market and sustaining losses in several preceding years by the Finance Company.

(i) Any income whatsoever had not been received by the Board from the investment of Rs. 700,560,142 made in 18,817,090 Shares in 24 companies in the year 2013. Details on the invested companies from which no such income was received during the past 4 years are given below.

Year	Number of Companies	Number of Shares invested	Amount of investment
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			Rs.
2010	17	4,111,468	119,083,880
2011	18	7,683,979	163,867,080
2012	25	13,046,750	226,125,038
2013	24	18,817,090	700,560,142

4.3 Legal Action Instituted Against/ by the Institution

A sum of Rs.21,000,000 had been paid as a compensation to a private company on an unfavourable judgement delivered against the Board for breach of agreements. As a result of an appeal made by the Board against this judgment, a bank guarantee equal to the above value had been deposited in the Court by the plaintiff company as well. Even though this money had been brought to account as a receivable amount to the Board, the payment of this money had been made on an unfavourable judgement and as such, there was an uncertainty in getting back this money. However, this judicial process had not been finalized even by 31 December 2014.

4.4 Transactions of Contentious Nature

The following observations are made.

- (a) A loan of Rs. 3,000,000 had been granted to a Sports Society operated by the officers of the Board in the year under review without entering into any agreement and without an approval of the Treasury and contrary to the objectives of the Board. Even though it had been informed that this loan will be repaid in 24 installments at an interest rate of 10 per cent, only a sum of Rs. 498,310 out of that had been paid during the relevant period.
- (b) A sum of Rs. 1,742,166 had been spent in the year under review for extraneous activities of the Board and requirements of various parties.
- (c) 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 Holidays stating that the Board is operated under Shop and Office Employees Ordinance. As a result, the overtime cost in the year 2013 amounted to Rs. 18,000,252. According to the Ordinance, an Officer should serve 5 ½ days a week to obtain overtime and the annual leave is limited to 21 days. Contrary to that, officers are allowed an annual leave of 42 days and 5 days service per week.

4.5 Identified Losses

A sum of Rs. 2,044,420 had been written off from the books as the shortage of fixed assets in the year under review.

4.6 Staff Administration

Even though the total number of vacancies of the Board including 17 of the Staff Grade had been 52 by 31 December in the year under review, attention had not been paid to fill those vacancies.

5. Accountability and Good Governance

5.1 Internal Audit

The internal audit had not been planned and implemented so as to cover the significant areas of the Board in terms of Financial Regulation 133(2).

5.2 Budgetary Control

Significant variances were observed between the budgeted and actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice 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) Timely amendments to be made to the Act.
- (d) Investments
- (e) Maintenance of Members' Accounts