

Employee's Trust Fund Board - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the consolidated financial statements of the Employee's Trust Fund Board("Board") and of the Board and its subsidiary ("Group") for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Board and the group as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Board.

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit was obtained 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Board to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The sum collected by the Board from 3912 employers in the period from 1981 to 2021 on 28 April 2021 was Rs.581.35 million contributions, as per Section 16 (3) of the Employees' Trust Fund Board Act No. 46 of 1980, without being credited to the personal accounts of the respective members and kept in other temporary accounts. In this, there was a balance of Rs.90.76 million which is coming from a period of 07 to 41 years.	In order to divide the contributions to be divided, phone calls are made, letters are sent by registered mail, the implementation officers of the board are sent to the relevant institutions to obtain information. Also, in the future, get C reports from the Employees' Provident Fund, prepare Form II reports based on those reports, and propose to update member accounts accordingly.	The method of collecting membership fees should be improved in such a way that the members who are to be credited with the contributions should be identified accurately and promptly and arrangements should be made to identify the membership fees that have not been identified.
(b) In terms of Section 16 (3) of the Employees' Trust Fund Board Act No. 46 of 1980, contribution and surcharges worth Rs.1,511.14 million has been collected by the Board through court proceedings from 1985 to 2022 in respect of a certain employee in terms of sub-section (1) from this an amount of Rs.71.25 million had not yet been credited to the employee's personal accounts till the end of the proceeding year.	In order to reduce the uncredited balance in member accounts, starting from February 2023, and payments will be made under electronic payments in institutions with more than 15 employees, information will be obtained through the implementation officers of the board, and information will be brought through the employees' provident fund.	Action should be taken to credit the funds recovered from court proceeding to the member's accounts without delay.

- (c) According to the computer system as at 31 December 2021, the uncredited balance in the members' personal accounts was Rs.781.05 million, but that balance was disclosed as Rs.290 million under Note No. 34 of the financial statements.
- The dividing member's money for the years 2020 and 2021 will be done in the years 2022 and 2023. Therefore, member's money received prior to the year 2019 will be member's money that have not been split based on practical issues actually. As a result, the value of long-term actual practical issues balances has been disclosed under Note No. 34 of the financial statements.
- The composition of this balance included in the member's account should be sorted and disclosed under the account notes.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
(a) Rs.12.17 million invested in promissory notes and 4.45 million rupees invested in debentures of a company currently in liquidation should have been redeemed in the years 2002 and 2007 respectively. Furthermore, The court proceedings have been taken to recover the interest income of Rs.15.21 million due from the investment in the debentures of Vanik Company until on 31 December 2006 and the interest income of Rs.367,724 due from the investment in the promissory notes. The board was unable to recover as at 31 December 2021.	The court ordered that a liquidator should be appointed to the request made by a third party to liquidate this company. The liquidation process has not yet been completed.	Follow-up should be done to recover the interest income due
(b) The amount of Rs.9.39 million due from the debenture interest money that was due from a plantation company for many years had not been recovered by 31 December 2022.	Considering the current financial situation of the company, it may take some time to settle this interest amount, and we will prepare a future plan in this regard. After following up on it and presenting the proposals, steps will be taken to take further action.	Follow-up actions should be taken to recover the interest income due.

1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
(a) Out of the balance of Rs.147.16 million as at 31 December 2022 for making payments under the higher education bursary scheme Rs.0.12 million and Rs.3.04 million were allocated for the year 2019 and 2020 respectively. It remained to be settled further.	Even though notifications have been made through registered post, telephone, e-mail and WhatsApp to address the deficiencies in the basic documents of the claimants, it has not been possible to settle by now due to lack of positive response.	A proper process should be prepared and settled to identify the respective claimants.
(b) Under the five-year scholarship financing scheme from 1994 to 2014, the unpaid amount of Rs.1.27 million for 73 students was credited to the income during the year under review without payment to the respective scholarship recipients. In the statement of financial status as at 31 December 2022, in the balance of Rs.235.3 million allocated for the five-year scholarship financial aid payments, Rs.0.075 million and Rs.13.6 million were allocated for the years 2020 and 2021 respectively. It remained to be settled further.	It has not been possible to settle this balance as there is not enough information to identify the scholarship recipients who did not claim for the period 1994-2014. Based on the agreement given in the audit and management committee meeting, the approval has been taken by the board of directors paper number 227/2022 to credit this money to the board account at the board meeting held on 24 October 2022.	A proper process should be prepared and settled to identify the respective claimants.
(c) As unclaimed death benefits at the end of the year under review in respect of 1,207 members Rs. 21.43 million remained as payable. In the age analysis of the death beneficiaries who died between 1995 and 2022, the amount of death benefits to be paid to 786 beneficiaries belonging to the time span of more than 07 to 20 years was Rs.8.87 million.	When there is more than one claimant for the member's benefits after the death of the member, due to the fact that all the claimants do not appear at the same time (it is some claimants are abroad) and because of the difficulty of some people to submit sufficient written information (not submitting certificates promptly), their shares are retained in the board's account and only the claim shares of those who have submitted the documents are taken action to do the payment currently being followed.	Action should be done to identify the respective claimants and proper arrangements should be done for the settlements.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules and Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) No. 05/2008 dated 06 February 2008 and No. 05/2008 (I) dated 24 January 2018 of the Ministry of Public Administration Home Affairs Circulars.	Although the Citizens'/Clients' Charter should have been prepared and implemented, it had not been acted accordingly.	the Action has taken to prepare and present the citizens'/clients' charter for the entire board as soon as possible.	Should act accordingly the circular terms.
(b) Section 10 of Chapter XXIV of the Establishment Code as amended by No. 30/2008 dated 31 December 2008	In the sample audit conducted in relation to 67 loan files in the year under review, although the maximum amount of loan that can be given to the concerned officers is Rs.16.75 million, contrary to the provisions of the circular, Rs.41.23 million that was Rs.24.48 million were paid in excess.	As per the approval given by the Board of Directors in the year 2022, the loan amount has been subject to a maximum limit of Rs.250,000.	Should act accordingly the circular terms.

2. Financial Review

2.1 Financial Result

According to the consolidated financial statements presented, the financial result of the Group for the year under review was Rs.37,680 million and the financial result of the Board was a profit of Rs.36,978 million and the corresponding profit of the Group and the Board of the previous year was Rs.28,595 million and Rs.28,569 million respectively. Accordingly, the financial result of the Group and the Board had grown by Rs.9,085 million and Rs.8,409 million respectively. The increase in the interest income of the Board by Rs.12,221 million in the year under review was the major reason for the improvement in the above financial results.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Under the occupational health insurance system provided to members, a maximum of Rs.50,000 is offered to a member for reimbursement of medical expenses during his lifetime, and the management had not focused on increasing this maximum for more than 12 years. But, while the board's staff are also covered by the above insurance scheme under the medical expenses reimbursement system given to the staff of the board without the proper permission of the board, the medical expenses reimbursement allowance given per year for the treatment received in the hospital and the treatment received without hospitalization has been increased respectively from Rs.75,000 to Rs.100,000 and from Rs.40,000 to Rs.60,000 in 2018. Accordingly that under the Shramasuva insurance system, the medical expenses were Rs. 23.47 million, while the reimbursement of staff medical expenses were Rs. 119.7 million.	The Board of Directors has approved the current union proposal of the board to increase the reimbursement amount for medical expenses from the year 2018. During the year under review, no action has taken to increase the staff medical allowances. However, due to the hyperinflation caused by the economic crisis, the reimbursement expenses had increased due to the increase in hospital fees and drug costs.	Arrangements should be made to provide optimum benefits for the members of the fund.
(b) According to the Incorporation Act, the Chief Executive Officer of the Board is the Chairman of the Board. However, it was recommended in the Committee on Public Enterprises meeting held on 26 August 2016 that section 5 (2) of the Employees'	Legal Draftsman's Department has prepared the preliminary draft regarding amendments. Along with the amendment of the Employees' Trust Fund Act, the implementation of the amendment in accordance with the recommendation given by the	The management should take action to implement the orders given by the Committee on Public Enterprises.

Trust Fund Act should be amended to state that the chief executive officer of the board should be its chairman as a financial institution. However, by the end of the year 2022, the amendment of the Act had not been completed.

Committee on Public Enterprises was discussed in the Board of Directors meeting held on 24 April 2023, and In this regard, the board decided to take the comments and instructions of the secretary of the Ministry of Finance in writing and carry out the related activities.

(c) Although the board is a major institution that invests funds in government securities, the Central Bank of Sri Lanka has not obtained the direct bidding facility in securities auctions. Although it was ordered to be registered as a Primary Dealer of the Central Bank of Sri Lanka in the Committee on Public Enterprises held on 26 August 2016, it had not been done so by 31 December 2022.

Considering the difficulties in obtaining approval for this facility, the limitations of capital expenditure to be incurred, the limitations of new recruitments, the difficulty of recruiting, retaining and rehiring qualified and skilled officers in the field under the existing salary scales, and the existing problems of providing other related infrastructure, This task is currently being achieved by the people's bank at no cost and without employing additional staff.

The management should take action to implement the orders given by the Committee on Public Enterprises.

(d) As the repair of the car accident on 19th October 2022 is not economically viable, the amount the insurance company has agreed to pay to the board is Rs.8,100,000. By doing full insurance on the market value of Rs.8,125,000 in the year 2018 without insuring on the current market value of Rs.11,000,000, the board had lost insurance benefits of Rs.2,875,000.

The insurance company had agreed to give an insurance claim of Rs.8,100,000 to the board due to the accident that happened to this car. All the vehicles owned by the board have been re-assessed in accordance with the current market value and insurance coverage has also been obtained in relation to the new assessed value. However, the accident of this vehicle took place on 09th October 2022 and since the vehicle valuation reports had not been received till then, it was insured at cost. The relevant period for assessment by the

The loss incurred by the board should be recovered from the responsible officers and insured according to the current market value.

board for the new insurance year at the current market value is from 03 November 2022.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) As at 31 December 2022, the average cost of the investments made in 13 listed companies was Rs.909.89 million and no dividend income was received in the year 2022. Among these, 2 companies had not received continuous dividends from 2015 to 2022, and 11 companies had received only occasional dividends from 2015-2022.</p>	<p>From 2015 to 2021, there are only 02 companies that have not received dividends continuously. The Board has received a total of Rs.171 million as annual dividends from 2015 to 2021 for 08 other companies occasionally. Out of the 15 companies, 4 companies have received Rs. 52.6 million as dividends by April 2023. Similarly, we expect that dividends will be received in the future for other companies based on the profitability of the companies.</p>	<p>The investment portfolio should be managed so as to provide high returns to the members.</p>
<p>(b) In the check of stock purchases made by the Board in a company in the year 2021 and 2022 had invested in 7,106,832 shares and 615,542 shares respectively. In the audit of the financial statements of that company in the previous years, while it was a loss making company in the years 2017, 2019 and 2021. Without paying attention to it, in the years 2021 and 2022 the shares were purchased by spending Rs.64.01 million and Rs. 4.99 million respectively. Furthermore, by the audit date of December 2022, this company was placed under the Watch List due to non-</p>	<p>With the aim of diversifying the stock investment portfolio of the board, due to the awakening and high demand in the hospital sector that year, and after analyzing the future growth opportunities, in late 2021, about 0.5 percent of the issued share capital of Navaloka Company was invested in the hospital sector. In the accounting year 2020/2021, Even Navaloka Company has shown a loss situation, but Navaloka Hospital Group as a whole has shown a profitable situation in the 2020/2021 financial statements.</p>	<p>The investment portfolio should be managed so as to provide high returns to the members.</p>

compliance with the stock market rules.

- (c) The board had submitted bids for 28 treasury bond batch numbers out of the batch numbers presented in 23 auctions held by the Central Bank of Sri Lanka in the year 2022. Among these more than 50 percent of the bids submitted for 12 batch numbers bids were rejected. It was observed that the opportunity to invest in high-yield bonds was thereby lost. Although the GS Committee of the Board had considered the market factors in the bid decision, it was observed that because of going to a higher production rate beyond the existing market conditions, the bid acceptance had also decreased due to this.
- It is tricky to bid higher in a situation where the rate of return on investment is rising. Successful results have been achieved in other situations in this way. Also, in some cases, the central bank will accept a value lower than the bid value submitted for the auction. In such cases also there is a high probability that the bids submitted by the Board will be rejected at the expected rates. In some cases, the unexpected behavior of a large number of competing applicants also affects our expected results.
- The investment portfolio should be managed so as to provide high returns to the members.
- (d) Although it was planned to make the payment of benefits within 09 days and 15 awareness programs were planned about it for the members and employers, the progress was 05 programs of it and although it was planned to establish 05 branches and 01 VIP window with the intention of decentralizing the payment of benefits, however these activities were not implemented.
- The employers and our organization were unable to provide transportation facilities due to the fuel crisis in 2022. In order to decentralize the payment of benefits, 05 more regional offices were planned to participate in it, but due to staff limitations and other practical issues, the board of directors was instructed that the payment of benefits should be done only by the 07 regional offices that are currently paying benefits.
- Should be acted in accordance to accomplish the objectives as planned.
- (e) According to the financial stability of the fund, 10 welfare schemes for the members are implemented for the 2.7 million active members of the fund. The
- Welfare benefits operated by the Board are special benefits which do not require special contribution from the members and are not offset against the
- Efforts should be made to provide a high return to the members, since it is a fund made up of members' contributions.

board has not acted to increase the maximum financial assistance value given to a member under that welfare services since last 6 to 13 years.

members balance. Since these benefits are an expense in the board's profit and loss account, providing welfare benefits without proper evaluation and control will affect the percentage of interest and dividends paid to all members at the end of the year.

(f) As amended by section 18 (1) of the Employees' Provident Fund Board Act No. 46 of 1980 and section 6 of the Employees' Provident Fund Board (Amendment) Act No. 47 of 1988 provisions had made to register a self-employed person or a migrant worker under the Act. According to the Labour Force Survey - Annual Report - 2019, out of the total number of self-employed persons registered in Sri Lanka which was 3,233,290, the total number of self-employed persons registered to the fund was 43,524 or 1.35 percent. The following observations were made in this regard.

(i) As many as 33,120 registered self-employed persons became inactive, thus the active membership remained at a very low figure of 10,404. It was planned to activate 90 self-employed persons whose membership was inactive, but only 32 self-employed persons were activated.

Not following the correct informing systems, the contributions paid by the members are not properly updated to the member accounts, the members and the self-employed are not informed about the benefit payment conditions and member monthly contribution increases in the year 2015 and the covid pandemic situation in the country during 2020-2022. Due to these the number of inactive members have been increased.

A formal work plan should be prepared and implemented to register the self-employed.

- (ii) According to the data of the self-employed beneficiaries who have been given benefits in the last 3 years as mentioned below, the number of members who received benefits such as subscription for contact lenses, heart surgery support, life insurance and permanent disability compensation were at a low rate.
- The main reason for this is the non-payment of monthly contributions properly for 3 years and the members not submitting the benefit application in due time and the ignorance of the members.
- Action should be taken to inform the members regarding the contributions and the benefits.

Type of benefit	Number of beneficiaries		
	2020	2021	2022
Subscriptions for contact lenses	14	16	10
Heart surgery support	05	11	01
Life insurance	08	05	08
Permanent disability compensation	02	03	01
Total	29	35	20

- (iii) Even though the Employees' Trust Fund Board (Amendment) Act No. 47 of 1988 had stipulated that migrant workers should also be registered in the fund, the total number of migrant workers given membership in the board was 04, 09 and 16 in the years 2020, 2021 and 2022 respectively.
- Although programs have been launched under the Foreign Employment Bureau for the registration of migrant workers in our sector, registration in our sector has been hampered due to the introduction of benefit programs for the foreign migrants by the same bureau.
- Awareness should be developed regarding the offering the membership of board.

3.3 Procurement Management

Audit Observation	Comments of the Management	Recommendation
Although the purchase of 205 laptops valued at Rs.41.57 million was not planned as one procurement but the National Competitive Pricing System as per 3.2 of the Procurement Guidelines should be followed and more competitive prices should be obtained. In 04 cases the price was obtained by following the shopping method.	Due to the Covid pandemic situation in the country and the bad economic situation, the companies that accepted the orders failed to supply the goods and in the face of the high demand, the companies showed more tendency to give away the laptops for cash. Accordingly, several laptops were purchased in several stages at a cost of not more than Rs.10 million. Thus, the board was able to purchase 205 laptops within a short period of 08 months.	Should be acted in accordance with 3.2 and 3.4 of the procurement guidelines.

3.4 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
Although instructions were given in the Committee on Public Enterprises held on 26 August 2016 to strengthen the investment division of the board and undergo a restructuring to maintain more security and optimum earnings, 06 vacancies in 03 positions directly related to the investment portfolio management of the investment division had not been filled by 31 December 2022.	Since very high salaries are paid in the private sector in this field, vacancies are constantly created due to the resignation of the officers recruited to the board within a short period of time. Also, during the call for applications, it is observed that applicants who are qualified to hold the position and have experience in the field do not apply under this salary scale.	Amendments of the salary scales should be approved and should be done according to the instructions of the Committee on Public Enterprises.