

## **Employees Trust Fund Board-2011**

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### 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 Board as at 31 December 2011 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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The Board had not carried out a revaluation of vehicles to ensure whether there is no material difference between the carried forward value and the fair value of vehicles as at the date of balance sheet in terms of Sri Lanka Accounting Standard No.18.

##### 1.2.2 Accounts Receivable and Payable

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The following observations are made.

- (a) The unsettled outstanding accounts payable balance remained for more than 2 years amounted to Rs.966,184.
  
- (b) The balance of Rs.50,953 to be settled to the officers of the Board elapsed for more than 01 year had not been settled even as at the end of the year under review.

- (c) Action had not been taken to recover the debts totalling Rs.939,749 comprising special loan of Rs.50,681, festival advance of Rs.10,600, festival advance loan of Rs.7,700, special advance loan of Rs.22,000, vehicle loans of Rs.399,282 and the distress loan of Rs.449,486 from the debtors or relevant guarantees.
- (d) Any installment whatsoever had not been received from loan balances of Rs.214,264 granted under SMIB housing loan scheme as at 01 January 2011 during the year under review.
- (e) The balance of the unclaimed death benefit account amounting to Rs.7,017,309 and the balance of refundable benefit account amounting to Rs.11,749,478 shown under liabilities had continuously increased since the year 1995 and the year 2001 respectively upto the year under review but no action had been taken to settle them.
- (f) Action had not been taken to settle the balance in the refundable benefit account amounting to Rs.4,575,055 which had been increasing since the year 2001 even as at the end of the year under review.
- (g) Receivables totalling Rs.385,290 further recoverable from 22 officers who had left 1 to 12 years ago had not been recovered even by 31 December 2011.

1.2.3 Lack of evidence for audit  
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The value of 180 petty cash vouchers paid out of petty cash without evidence amounted to Rs.238,974.

1.2.4 Non-compliance with Laws, Rules ,Regulations and Management Decisions  
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The following non-compliance with laws, rules, regulations, etc. were observed in audit.

Reference to Laws, Rules, and Regulations and management Decisions -----	Non-compliance -----
(a) Sections 1.1.6 and 2.3 of Public Administration Circular No.22/99 of 08 October 1999	Contrary to these provisions the fuel expenses incurred by the Board during the year under review for private travelling of the officers of the Board amounted to Rs.2,317,396
(b) Circular No.50 of the Department of Public Enterprises dated 28 July 2008.  Paragraph 01	The fuel expenditure incurred in respect of 3 officers, during the year under review in excess of the approved limits stated in the Circular amounted to Rs.871,242.
(c) Public Enterprises and Public Administration 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 minutes of the 56 meeting of COPE on 18 October 2011	Even though it was stated that loans should not be granted to the employees of Public Corporations and Statutory Boards at 4.2% rate of interest, the Board had granted Staff Loans on the above interest rates or less than that rate contrary to those provisions. The outstanding loan balances granted on the above interest rate as at 31 December 2011 amounted to Rs.338,938,974.
(d) Public Enterprises Circular No.PED 12 of 06 June 2003	Donations of Rs.853,440 had been granted without the prior approval of the
(i) Section 8.3.8	

- Cabinet of Ministers.
- (ii) Section 8.7 Even though taxes recoverable from the employment income of the employees should not be born by the employer. Nevertheless the PAYE tax amounting to the Rs. 3,429,042 had been incurred in the year under review by the Board.
- (iii) Section 9.12 The approval of the Department of Public Enterprises and the Treasury should be obtained for welfare programmes introduced by the Board. However an expenditure of Rs.18,353,944 had been incurred during the year under review for un approved welfare projects.
- (e) Public Finance Circular No.PF/PE 5 dated 11 January 2000 and Section 16 of the notes on the COPE meeting No.56 held on 18 October 2011 A sum of Rs.74,845,611 had been paid as incentives without the approval of the General Treasury in the year under review.
- (f) Management Services Circular No.47 of 22 December 2011 Bonus of Rs.44,482,478 had been paid during the year under review as well contrary to Sections 1 and 2 of this circular. Is the bonus paid outside the provision in Section 8 of this circular, the prior approval of the Cabinet of Ministers should be obtained. Action had not been taken accordingly.
- (g) Management Services Circular No.30 of 22 September 2010. Paragraph 11 (6) of the annex Instead of being adjusted the decrease in financial value of the salary increment and paid henceforth such decrease had

been computed for the period for which increment had been obtained under the old salary scale and adjusted the salary increments in retrospective effect. This had not been rectified even as at 31 March 2012.

- (h) Circular No.2005/12 dated 25 July 2005  
of the Administration and Human  
Resources Division

Section 3, Para xiv

If the previous loan is not settled in full, the balance of that loan after deducting the outstanding balance can be paid. Contrary to that an instance was observed.

- (i) Financial Regulations (F.R) of the  
Democratic Socialist Republic of Sri  
Lanka

- (i) F.R. 104

Reports on losses in respect of 45 vehicle accidents had not been presented to the Auditor General

- (ii) F.R.756(i)

A proper Board of Survey had not been carried out in a manner to reconcile the value of fixed assets shown in the balance sheet

#### 1.2.5 Transactions not supported by adequate Authority

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The following observations are made.

- (a) Approval of the Treasury or the Ministry of Finance had not been obtained for the Financial Regulations implemented since 1999 with the approval of the Board of Directors.

(b) Uniforms had been given to the staff of the Board since 1993 without obtaining the Treasury approval and the expenditure incurred during the year under review too amounted to Rs.8,709,039.

(c) Overtime payment had included a sum of Rs.14,092,107 as over time payments which had been calculated at 1½ hours for one OT hour in working on Saturdays and Sundays and adding a day's pay when 8 hours were completed without any approval or appropriate basis.

## 2. Financial Review

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### 2:1 Financial Results

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The operation of the Board for year under review had resulted in a surplus of Rs.11,570,693,989 as compared with the surplus of Rs.14,588,421,261. Accordingly the decrease in surplus as compared with the preceding year amounted to Rs.3,017,727,272. Decrease in investment income and capital gain from sale of Share capital and increase in administrative expenditure in the year 2011 had been the main reasons for decrease in surplus.

### 2:2 Analytical Financial Review

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The following observations are made.

(a) As a consequence to the decrease in surplus in the year under review as compared with that of the preceding year the dividend percentage given to members had decreased by 2.5%.

(b) Members interest of the Fund ,.total contribution and the 5 years variances of the cumulative value of stated interest.

The total interest of members for the last 5 years, the total contributions to those interests and the manner out of which the accumulated interest was distributed are given below.

Year	Total Contribution	Accumulated Interest	Member's Right
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	Rs. million	Rs. million	Rs. Million
2007	36,798.97	39,134.10	75,933.07
2008	40,712.25	48,157.80	88,870.05
2009	43,875.10	59,181.98	103,057.08
2010	48,148.28	71,704.59	119,852.87
2011	51,464.77	84,021.53	135,486.30

According to the above information 38% of the total interest of the members of Board represented contributions whilst 62% represented the accumulated interest by the year 2011. Similarly the total interest of the members had increased by 13% in the year 2011 as compared with the year 2010 but the total contributions in that year had increased only by 6.9%.

### 3. Operating Review

#### 3:1 Performance

#### 3:1:1 Operating Performance

The position of performance as at the end of the year 2011 is as follows.

Particulars	Actual Members	Members relating to the Operations of the Fund	Percentages thereof
Private and Semi-government Employment	3,414,944	2,100,000	61.49%
Employees	228,926	67,041	29.28%
Number of members			

Accounts (Millions)	9.6	2.1	21.87%
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An adequate methodology had not been formulated by the Board to enroll and provide benefits to 2,478,716 employees engage in self-employment in Sri Lanka as at the end of the year 2011.

(Source Report of the Central Bank of Sri Lanka for 2011)

### 3.1.2 Investments and Investment Income

Investment of Rs.118,984 million available as at the beginning of the year under review had increased to Rs.134,991 million balance as at the end of the year under review after being adjusted the purchases and maturities.

The following observations are made in this regard.

#### (a) Short-term REPO investments

Despite the Board had paid bank charges to a certain bank which provides facilities to the Board, a deposit of Rs.500,000,000 had been given to that Bank since 2006 with the agreement of both parties at a lower interest rate than the market interest rate. When the market interest rate was assumed to be 10% of the interest income deprived of by the Board estimated at Rs.11,934,162 approximately.

#### (b) Investments in Shares

(i) Any income whatsoever could not be ascertained by the Board during the year under review from 10 companies in which a sum of Rs.138,403,316 had been invested. Action had been taken to make another investment of Rs.29,356,835 in another 3 companies in which a sum of Rs.82,504,091 had been invested without earning any interest income.



- (ii) Two companies in which a sum of Rs.25,227,538 had been invested in 624,570 shares had been subjected to liquidate and a listed company in which a sum of Rs.4,066,314 had been invested in 178,700 shares had been removed from the quoted companies register. As such the invested amount or interest thereon from those companies could not be ascertained by the Board.
- (iii) The amount of investment made in 5 companies, by which no transactions were made in the stock market during the period from 2 to 5 years amounted to Rs.152,478,563. In the reply of the Chairman, it was stated that the Treasury had advised not to sell shares in Sri Lanka Telecom included therein without the approval.
- (iv) Capital gain derived from sale of shares and units during the year had decreased by Rs.654,779,335 as compared with that of the preceding year and it represented 54 per cent. It was stated in the reply of the Chairman that the share market had drastically deteriorated in the years 2010 and 2011 and action will be taken to ascertain more capital gains when the share market is increased.
- (v) The provision made in the year under review on the uncertainty due to decrease in market value of shares in 63 institutions out of 105 institutions in which a sum of Rs.7,228,104,571 had been invested, amounted to Rs.911,992,269.
- (vi) Action had not been taken to recover an investment interest of Rs.27,854,580 receivable prior to 9 years on debentures and promissory notes invested in 2 Companies even as at 31 December 2011.

### 3.2 Management Inefficiencies

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The following observations are made.

- (a) As advances had been given without being identified the requirement and prepared estimates a sum of Rs.384,306 could be retained by the officers of the Board for a short period during the year under review.
- (b) Even though a register of fixed assets is maintained by the Board since the year under review, the depreciation for the year valued at Rs.26,210,160 could not be separately identified under each item.
- (c) Had the fixed assets valued at Rs.6,043,707 been assessed by a Government Valuer in disposing those assets it was observed that some more profit would have been earned than the profit of Rs.2,665,709 stated as realized.

### 3.3 Operating inefficiencies

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A sum of Rs.21,900,000 shown in the accounts as receivable deposit from a certain company to the Board if the value of a bank guarantee forwarded to the court by that company as a result of an appeal made in respect of a sum of money paid to that company by a court order given on a breach of agreement. A final decision had not been taken by the court in the year under review as well.

### 3.4 Uneconomic Transactions

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The following observations are made.

- (a) The value of balance uniform cloths which had been purchased in the year 2011 and prior to that for the use of staff of the Board but not utilized amounted to Rs.1,943,500. As a result of purchasing excessive uniform cloths without collecting correct data for the requirement, this fruitless expenditure had been incurred.
- (b) Newspaper advertisement charges of Rs.1,078,515 had been incurred to inform the scholarship awards to A/L passed students in the year 2010 without proper plan and study in order to ascertain better result by incurring a minimum cost.

(c) The expenditure incurred to hold a festival for awarding scholarships to the year 5 scholars amounted to Rs.1,656,643.

### 3.5 Identified Losses

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Instead of recovering the petty cash shortage of Rs.11,412 observed at a Zonal office from the parties responsible, it had been write off against the profit of Board. A sum of Rs.103,484 recoverable from the vehicle yard of the Board had also been written off from books due to non recoverability.

### 3.6 Resource of the Board given to other Public Institutions

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The motor cab bearing No.PB1089 valued at Rs.6,189,922 belonging to the Board had been given to the Presidential Secretariat without being properly acquired in contrary to Section 8.3.9 of Public Enterprises Circular No.PE/D 12 dated 06 June 2003 and 9<sup>th</sup> schedule of appendix 11 in F.R.502(2). A sum of Rs.646,868 had been incurred during the year under review for repairs and service of that vehicle.

### 3.7 Creation of a Fund for the Provision of Employees Gratuities

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Action had not been taken to invest the gratuity provision of Rs.179,895,381 as at the end of the year under review as a separate fund.

### 3.8 Vehicle Utilization

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The value of loss due to meeting with accidents to 16 vehicles amounted to Rs.606,134. Action had not been taken recover the loss from the Insurance or from the parties responsible.

## 4. Accountability and Good Governance

### 4.1 Corporate Plan

The Corporate Plan had been for the period from 2009 to 2012, but it had not been updated even by October 2011.

4.2 Action Plan

An action plan had also been presented along with corporate plan for the period 2009 – 2012. However, an action plan had not been presented to audit even up to the end of the year 2011.

4.3 Internal Audit

Functions of the Internal Audit Division had not been performed in terms of Section 4 of Management Audit Circular Np.DMA/2009(1) dated 09 June 2009 and F.R.133(2) and 134(3). Copies of Internal Audit reports had also not been presented to audit.

4.4 Procurement Plan

A Procurement Plan had not been presented to audit in the year under review.

5. Systems and Control

Weaknesses in systems and controls observed in audit were brought to the notice of the Chairman of the Board time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Accounts receivable and payable
- (c) Periodic amendments to the Act
- (d) Investments