

State Institutions' Temporary Surplus Trust Fund - 2012

1. Financial Statements

1.1 Opinion

In my opinion, because of the significance of the matters described in paragraph 2.1(c) of this report, the financial statements do not give a true and fair view of the financial position of the State Institutions' Temporary Surplus 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

1.2.1 Non-Compliance with Laws, Rules, Regulations etc.

The following instances of non-compliance were observed in audit.

- a) According to Paragraph (a) of Section 12 of the Indenture of the Trust signed on 3 August 2005; the Board of Trustees should meet at least once in three months. However, no meeting was held during the year under review.
- b) According to the Item 6 of the Memorandum of Understanding (MOU) dated 27 June 2006, the Trustees shall request the individual participating Government Institutions of the Trust Fund to furnish their projected fund flow details of at least 6 months to the Fund Manager. However, no such projected fund flows had been received by the Fund Manager for the year under review.
- c) According to the item 07 of the trust deed; the state institutions are stated to be entitled to make withdrawals from the Trust Fund, a total of amount invested together with interest at any time by giving notice to the Fund Manager. According to item 17 of the Trust Deed, the trust beneficiaries are entitled to get their funds back within 10 days of receipt of a request for the payment in writing. However due to the transfer of Rs. 10.7 billion, the beneficiaries will not be able

to withdraw any funds unless the Treasury repay the withdrawn funds to the Trust Fund.

2. Financial and Operating Review

2.1 Financial Performance

Following observations are made.

- a) According to the financial statements furnished, the operations of the Trust Fund during the year under review had resulted in a net income before dividends of Rs. 1,113.4 million as compared with the corresponding net income before dividends of Rs. 1,457.5 million in the preceding year thus showing a decrease of Rs 344.1 million which is 24 per cent in the financial results. This decrease was mainly due to decline in capital gains and interest income arising from premature withdrawal of deposit to make payments to the consolidated fund.
- b) Only three beneficiaries had deposited Rs. 1,258.9 million in the Trust Fund and six beneficiaries had withdrawn funds amounting Rs. 1,843.4 million during the year under review.
- c) As a result of the transfer of 94 per cent of the beneficiaries' investments (Rs. 10.70 billion) to the Consolidated Fund in November 2012, the fund base of the Fund had eroded from Rs. 11.79 billion on 01 January 2012 to Rs. 1.58 billion on 31 December 2012. This had affected to the going concern of the Trust Fund.
- d) The investment balance which is the main source of income of the Trust Fund had decreased by Rs. 10.98 million when compared with the preceding year.

3. Systems and Controls

Special attention is needed in respect of the following areas of control.

- a) Furnishing of projected fund flow details
- b) MIS System
- c) Approval by the Trustees for withdrawals
- d) Holding regular Trustees' Meetings
- e) Reviewing the surplus funds retained with the beneficiaries and other government institutions
- f) Dividend distribution
- g) Obtaining concern from the beneficiaries for transfer of funds