

State Institutions' Temporary Surplus Trust Fund - 2011

1. Financial Statements

1.1 Opinion

In my opinion the financial statements give a True and Fair view of the financial position of the State Institutions' Temporary Surplus Trust Fund as at 31 December 2011 and its financial performance and its 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 Para (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, only one meeting of the Board of Trustees had been 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.

2. Financial and Operating Review

2.1 Financial Performance

Following observations are made.

- a) According to the financial statements furnished, the operations of the Fund during the year under review had resulted in a net income of Rs. 1,457.5 million as compared with the corresponding net income of Rs. 2,801.9 million in the preceding year thus showing a decrease of Rs. 1,344.4 million which is 47.98 per cent in the financial results. This decrease was mainly due to transfer of Trust Capital to the Consolidated Fund in 2010 and due to lower interest rates of high yielding bonds compared to the preceding year.

- b) Only four beneficiaries had deposited Rs. 3,329 million in the Trust Fund and seven beneficiaries had withdrawn funds amounting Rs. 4,505.6 million during the year under review.
- c) As a result of the transfer of 40 per cent of the beneficiaries' investments (Rs. 6.109 billion) to the Consolidated Fund in August 2010, the fund base had eroded from Rs. 17.812 billion on 01 January 2010 to Rs. 10.845 billion on 01 January 2011. However, the amount invested by the nineteen State Institutions was Rs. 11.786 billion as at 31 December 2011 which is 8.7 per cent increase compared with the preceding year.
- d) The investment balance which is the main source of income of the Fund had been decreased by Rs. 519.4 million when compared with the preceding year.

3. System 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 transfers