

Employees' Trust Fund Board – 2010

1 Financial Statements

1.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Employees' Trust Fund Board had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1.2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs of the Employees' Trust Fund Board as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

1.2 Comments on Financial Statements

1.2.1 Sri Lanka Accounting Standards (SLAS)

Non-compliance with the following Sri Lanka Accounting Standards were observed.

- (a) A vehicle revaluation had not been carried out by the Board to ensure that there was no difference between the value brought forward as at the Balance Sheet date and the fair value thereof in terms of SLAS 18.
- (b) Even though the loss from sale of shares amounting to Rs.16,429,168 should have been separately shown in the final accounts in terms of SLAS 3 it had been deducted from the investment income and shown in the accounts.

1.2.2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Receipts of interest amounting to Rs.5,044,101 relating to the month of December 2009 under Viyana Housing Loan scheme had been brought to accounts as receipts in January 2010 and the interest receivable for the month of December 2010 amounting to Rs.4,822,780 had not been brought to accounts. As such, the receipt of interest on Viyana Housing Loan scheme had been overstated by Rs.221,321 in the accounts.
- (b) The reduction of Capital on the receipt of loan instalments relating to the month of December 2009 amounting to Rs.1,980,146 had been adjusted as receipts of the year 2010 while the receipt of loan instalments relating to the month of December 2010 amounting to Rs.8,574,422 had not been adjusted. Thus the capital of the Viyana Housing Loan scheme as at 31 December 2010 had been understated by Rs.6,594,276.

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

Instances of non-compliance with the following laws, rules, regulations etc., observed during the course of audit are given below.

Reference to Laws, Rules and Regulations etc.,	Non-compliance
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<p>(a) Employees' Trust Fund Act, No. 46 of 1980</p> <p>(i) Section 5</p>	<p>Even though the Board should consist of 9 members, only 8 members had been appointed.</p>

(ii) Section 8(a)

The credit balance of each member's personal account as at the end of the year had not been intimated to each member before 30 September of the year following as per provisions. The Chairman informed that statement of accounts had been sent to about 85% of the active members by 31 December 2010.

(b) Public Enterprises and Public Administration Circulars

- (i)** Department of Public Enterprise Circular No. 130 of 18 March 1998 and Public Administration Circular No. 26/47 of 19 November 1997

Even though it was stated that loans should not be granted to the employees of the Public Corporations and Statutory Boards at the interest rate of 4.2% the Board had granted Loans to employees at the above interest rate or less than that rate contrary to those provisions. Accordingly, a loan balance of Rs.309,405,813 was recoverable as at 31 December 2010 given at the above interest rates.

- (ii)** Circular No. 29 of 09 October 2006

The Chairman had been using 2 vehicles for his official and private purposes and a monthly fuel allowance of Rs.20,000 for the petrol vehicle and Rs.14,000 for the diesel vehicle had been paid contrary to the Circular instructions.

- (c) Public Finance Circular No. PE/PE 5 dated 11 January 2000
A sum of Rs.59,960,950 had been paid as incentives during the year under review without the approval of the Treasury.
- (d) Management Services Circular No. 42 dated 14 December 2010
Bonus of Rs.40,178,847 had been paid during the year under review, contrary to Sections 1 and 2 of that Circular. If the bonus is paid outside the Section 8 of this Circular, the prior approval of the Cabinet of Ministers should be obtained, but the Board had not taken action accordingly.
- (e) Management Services Circular No. 30 of 22 September 2006 Annex II, Para (6)
Instead of adjusting the difference of decrease in financial value of the salary increment and giving for the ensuing period, that decrease had been computed for the period of obtaining salary increments under the old salary scales and adjusted the salary increment with retrospective effect.
- (f) Decision No. 523 of the Board of Directors on 31 August 2005
Even though only a maximum of Rs.10,000 could be reimbursed by the officers for participating study courses, the expenditure of Rs.71,750 had been reimbursed in 2 instances in excess of that limit.

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| <p>(g) Section 04 of the Management Audit Circular No. DMA/2009(i) dated 09 June 2009 and the F.R. 134(3)</p> | <p>Internal audit reports had not been submitted to the Auditor General.</p> |
| <p>(h) Financial Regulation of Sri Lanka (F.R.) F.R. 756 (1)</p> | <p>A proper board of survey had not been conducted.</p> |

1.2.4 Unsettled Balances

The following observations are made.

- (a) Action had not been taken to recover a sum of Rs.26,107,769 the period of which the interest on investments receivable had elapsed for over one year and a sum of Rs.31,365,629 elapsed for over 8 years totalling Rs.57,473,398 even by 31 December 2010.
- (b) Action had not been taken to recover the parking fees of Rs.103,484 receivable from the vehicle park in respect of the year 2008.
- (c) Dues, further recoverable from 15 officers who left the Board during the period ranging from 1 to 11 years whose gratuities had also been released amounted to Rs.604,644. Action had not been taken to recover these dues even by 30 April 2011.
- (d) Outstanding payables remained unsettled by the Board for more than 2 years amounted to Rs.979,008.

- (e) It was observed that the settlement of the balance of Rs.6,699,317 in the unclaimed dead benefit account shown under liabilities of the Board since 1995 and the balance of Rs.11,458,846 in the refundable benefit account since 2001 continuously increased up to the end of the year had been at a sluggishness level. The Chairman of the Board informed in his reply that necessary steps had been taken to refund this money by paying attention ceaselessly on this account and making awareness of the members as much as possible.

1.2.5 Transactions not supported by Adequate Authority

The following observations are made.

- (a) The approval of the Ministry of Finance or the Treasury 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 officers of the Board since 1993 without obtaining the Treasury approval and the expenditure incurred thereon in the year under review amounted. Rs.6,872,288.

1.2.6 Unreconciled Account Balances

In comparing schedules submitted along with the final accounts and related schedules, differences of the following loan balances existed.

	Balance as per Loan Register ----- Rs.	Balance as per Schedule ----- Rs.	Difference ----- Rs.
Vehicle Loan	571,250	739,695	168,445
Festival Advances	-	25,000	25,000

Festival Loans	1,200	11,400	10,200
Special Loans	13,761	122,008	108,247
Special Distress Loans	2,635,763	3,224,682	588,919

2. Financial and Operating Review

2.1 Financial Results

The operation of the Board for the year under review had resulted in a surplus of Rs. 14,588,421,261 as compared with a surplus of Rs.14,219,995,203 for the preceding year. Accordingly, the increase in surplus as compared with that of the preceding year amounted to Rs. 368,426,058. The reason for this increase had been the increase in investments income during the year 2010.

2.2 Financial Review

The following observations are made.

- (a) As compared the increase in surplus of the Board in the preceding year with the increase in surplus in the year under review, the increase in surplus had decreased by Rs.4,068,802,906. Accordingly, the dividend given to the members had decreased by 0.5 per cent.
- (b) Rights of the members of the Fund, total contributions and variances of the accumulated value of the stated interests for 05 years.

The total members rights, total contributions belonging to those rights and the distribution of accumulated interests for the last 05 years are given below.

Year	Total contribution	Accumulated Interest	Members Rights
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	Rs. Million	Rs. Million	Rs. Million
2006	33,199.20	32,499.70	65,698.90
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

According to the above information out of the total members' rights contributions had represented 40% and the accumulated interest represented 59% by the year 2010. Similarly, the total members' rights in the year 2010 had increased by 16% as compared with that of the year 2009 but the total contributions in that year had increased only by 9%.

2.3 Investments and Investment Income

Investments as at the beginning of the year under review amounting to Rs.101,235 million had increased to Rs.118,984 million as at the end of the year after purchasing and adjusting the maturities.

The following observations are made in this connection.

- (a) The total interest receivable for the year 2010 on investments made in the Kerawalapitiya Thermo-Electricity Project after retaining the withholding tax amounted to Rs.182,879,240 and it had not been received even by 30 April 2011.

(b) Short Terms 'REPO' Investments

A Repurchase investments of (REPO) Rs.500,000,000 had been made in the Bank of Ceylon on the annual renewal basis since 2007. Of this, only the Chairman's approval had been obtained for the investments of Rs.490,000,000 without obtaining the approval of the Board of Directors.

(c) Investment in Shares

- (i)** Even though investments in shares had been made, an investments of Rs.59,294,528 made in 12 companies had been idling without any capital profits or dividends due to non-transactions in the stock market for a long time. Further, three companies out of those had been subjected to liquidation by the end of the year under review.
- (ii)** A capital profit of Rs.1,206,512 on the investment of Rs.181,000,085 made in shares in the companies had been received during the year under review but no dividend income was received.
- (iii)** The Board had suffered loss of Rs.16,429,168 due to sale of 1,075,690 shares costing Rs.29,393,665 in a certain company for Rs.12,964,496. Shares had been purchased from this company since 1994 and as these shares had been dormant since 1998 capital profits could not be obtained. Further, the dividend income of Rs.5,378,845 and Rs.1,085,400 had been received from that company only in respect of the years 1998 and 2005 respectively.

2.4 Management Inefficiencies

The following observations are made.

- (a) A compensation of Rs.21.9 million had to be paid due to non-explaining the correct information to the courts as a defence in a court case filed by a private party demanding compensations on account of breach of agreement. The Chairman in his reply had stated that an appeal had been instituted in the court of appeal in this connection.
- (b) Money order deposit of Rs.17,230,663 in one bank account during the period from 2008 to 31 December 2010 had not been realised even by 30 April 2011 as per the bank reconciliation statements.
- (c) Provisions for the investment of Rs.19,624,641 which could not be recovered up to the year under review though matured and for the interest receivable amounting to Rs.33,365,633 had been made by the Board. These investments and interests could not be recovered by the Board since number of years.
- (d) A stock of awareness handouts valued at Rs.553,874 received to the stores on 16 February 2010 had not been utilised even as at the date of audit on 24 January 2011.

2.5 Identified Losses

The following observations are made.

- (a) The written down value of fixed assets costing Rs.12,996,933 amounted to Rs.2,044,420. Even though the approval for the write off of this amount had been obtained, a list of assets items relating to that value and the reasons for write off were not made available for audit.
- (b) Due to obtaining buildings on rent irrespective of the recommendations of the government valuer, a monthly loss of Rs.35,000 and Rs.150,000 on 2 buildings respectively had sustained by the Board. Thus the Board had incurred a total loss of Rs.2,220,000 in the year under review.

2.6 Fruitless Expenditure

The value of the balance uniform materials purchased prior to the year 2010 for the use of officers of the Board but not used amounted to Rs.1,660,657. It was observed that this fruitless expenditure had been incurred due to purchase of excess stock without ascertaining the correct data about the uniform requirements.

2.7 Transactions Without Authority

In addition to the 1 ½ hours per hour had been paid as overtime allowance for working on Saturdays and Sundays, a days pay had been added to the overtime hours when 8 hours had completed. As such an additional expenditure of Rs.5,379,201 had been spent during the year under review. The approval of the Ministry and the Treasury had not been obtained thereon.

3 Systems and Controls

Weaknesses in systems and control 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) Delay of Contributions, Recovery of Surcharges and Taking Legal Action
- (c) Cash Receivable
- (d) Sending Annual Statements of Accounts
- (e) Periodical Amendments to be Made to the Act
- (f) Investments