Employees' Trust Fund Board – 2016

The audit of financial statements of the Employees' Trust Fund Board and its Subsidiary for the year ended 31 December 2016 comprising the consolidated statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 Section 10(1) of the Employees' Trust Fund Act, No.46 of 1980. The financial statements of the Subsidiary had been audited by a Firm of Chartered Accountants in public practice appointed by the members of the relevant Subsidiary. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 10(7) of the Employees' Trust Fund Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 - 1810). Those Standards require that, I comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

Qualified Opinion - Group

In my opinion, except for the effects of the matters described in paragraphs 2.2 and 2.3 of this report, the consolidated financial statements give a true and fair view of the financial position of the Employees' Trust Fund Board and its Subsidiary as at 31 December 2016 and their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Qualified Opinion - Board

In my opinion, except for the effects of the matters described in paragraph 2.3 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 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements - Group

In the acquisition of a subsidiary, the goodwill acquired shall be recognized as an intangible asset in the statement of financial position in terms of Sri Lanka Accounting Standard 03 and an impairment test shall be performed annually on that intangible asset in terms of Sri Lanka Accounting Standard 36. However, in the acquisition of Lanka Salt Ltd. by the Board, the goodwill acquired amounting to Rs.378,926,440 had been fully written off in the year under review contrary to the Standard.

2.3 Comments on Financial Statements - Board

2.3.1 Sri Lanka Accounting Standards

The following observations are made.

(a) **Sri Lanka Accounting Standard 08**

Even though the nature of error, extent rectified and information on the items affected the rectifications should be disclosed in financial statements in terms of Section 49 of this Standard in rectifying the errors in the prior periods, information on the prior year adjustments made to the Members' Fund in the statement of changes in equity of the Board in the years 2015 and 2016 amounting to Rs.2,815,000 and Rs.16,607,000 respectively had not been disclosed in the financial statements.

(b) **Sri Lanka Accounting Standard 16**

In terms of Section 51 of the Standard, the useful life and the residual value for non-current assets should be reviewed annually. However, the Board had not taken action accordingly and the non-current assets costing Rs.441,853,000 as at 31 December 2016 comprised of assets being further depreciated under Reducing Balance Method of Depreciation from over a period of 25 years.

(c) **Sri Lanka Accounting Standard 39**

(i) In terms of Section 58 of the Standard, the entity shall assess whether there is any objective evidence of an impairment loss at the end of each financial year. Moreover, in terms of Section 61, if there is a significant or prolonged decline in the fair value of an investment below its cost, it should be recognized as objective evidence. Even though an assessment on impairment losses should be carried out in terms of the said Standard in every financial year according to the Accounting Policies of the Board, the Board had not carried out such an assessment for the financial year 2016.

(ii) There were 9 instances where the fair value of financial investments for sale as at 31 December 2016 had decreased from 30 per cent to 67 per cent as compared with its cost and the relevant impairment losses thereon was Rs.295,655,000. Nevertheless, only the impairment loss of Rs.282,739 had been adjusted in the year 2016. As such, the impairment loss not adjusted to the income statement amounted to Rs.295,372,261.

2.3.2 Unexplained Differences

According to the tax report of the Board prepared for the year of assessment 2016/2017, a difference of Rs.107,093,775 was observed between the gross tax liability as at 31 December 2016 and the tax liability shown in the income statement. Moreover, a difference of Rs.43,663,000 was observed between the tax liability in the income tax report as compared with the statement of financial position. However, reconciliation statements on those unreconciled balances had not been shown in the financial statements by the Board.

2.3.3 Lack of Evidence for Audit

Evidence indicated against the following items had not been made available to audit.

	Item	Value (Rs.)	Evidence not made Available
(i)	Revaluation Profits on Investment Assets	200,000,000	Revaluation Report
(ii)	Rectification of the error in valuation of Treasury Bonds	74,995,000	Relevant detailed Reports and Schedules

2.4 Accounts Receivable and Payable

The following observations are made.

(a) Action had not been taken even by 31 December 2016 to settle or to take into the income unclaimed bursaries amounting to Rs.2,113,000 payable to students who passed Advanced Level relating to years prior to the year 2011.

(b) A sum totalling Rs.31,390,228 existed by 31 December of the year under review comprising unclaimed death donations amounting to Rs.9,992,462 increasing continuously from the year 1995, benefits retained amounting to Rs.16,087,267 brought forward from the year 2001 and benefits not applied for amounting to Rs.5,310,499 and only a sum of Rs.2,800,844 had been settled to the relevant beneficiaries by 31 May 2017.

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

The following instances of non-compliance with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules, and Regulations	Non-compliances	
Shop and Office Employees Act, No.19 of 1954	(i)	The Board functions under the Shop and Office Employees Act and accordingly, the maximum number of leave entitled to employees is 21 days, being 14 days annual leave and 07 days casual leave. Nevertheless, the employees had been granted 42 days leave per annum contrary to that.
	(ii)	In terms of the Act, in paying for overtime, one and a half hour rate as a wage of an ordinary hour should be paid. However, contrary to that, the Board had paid overtime for one and a half hour per overtime hour adding salary of one day. As such, the overtime cost of the Board for the year 2016 amounted to a value as high as Rs.16,312,000.
	(iii)	Even though over the ordinary maximum period of 45 hours per week should be served for entitlement for overtime, payments on overtime had been made by the Board for every hour exceeding 8 hours per day without considering the maximum period of 45 hours per week.

3. Financial Review

3.1 Financial Results

According to the consolidated financial statements presented, the profits of the Group and the Board for the year ended 31 December of the year under review amounted to Rs.14,349 million and Rs.13,651 million respectively. As compared with the corresponding profits of the Group and the Board amounted to Rs,11,873 million and Rs.11,990 million respectively, thus indicating an improvement in the financial results by Rs.2,476 million and Rs.1,661 million respectively in the year under review as compared with the preceding year. The increase in interest income of the Board by Rs.3,218 million had mainly attributed to the improvement of the above financial results. However, in consideration of the impairment loss of Rs.295,372,261 on financial assets for sale shown in paragraph 2.3.1 (c) (ii) of this report, the actual improvement of the profit should be decreased by that amount.

The analysis of financial results of the year under review and 4 preceding years revealed that the profit of the Board had continuously increased and the profit of Rs.7,958,000,000 in the year 2012 had been Rs.13,651,165,000 in the year under review. Moreover, after readjusting the employees' remuneration, income tax and depreciation for non-current assets to the financial result, the contribution of the Board which was Rs.8,776,771,000 in the year 2012 had increased up to Rs.17,052,574,000 as at the end of the year under review.

3.2 Analytical Financial Review

The following observations are made.

(a) As indicated in 2.3.1 (c) (ii), after adjusting the impairment loss and deducting the sum of Rs.3,317,869,000 added to the profit of the year under review from the profit of the preceding year, in terms of Section 22 of the Employees' Trust Fund Act, the payment of compulsory interest at the rate of 3 per cent payable in the year under review and after payment of benefits of dividends at the rate of 6 per cent stated according to Section 14, the net loss carried forward was Rs.163,743,261. The impossibility of an unfavourable effect towards the financial performance of the Board in the current year could not be ruled out in audit.

(b) The total income of the year had remained unchanged as 11.24 per cent in the years 2016 and 2015 as compared with the value of the Fund as at the date of commencement of the year while it was 10.8 per cent as compared with the net contributions and opening Members' Fund of the year.

(c) The operating profit ratio of the Board had remained unchanged as 89 per cent in the years 2016 and 2015.

(d) The improvement of the Members' Fund and the gross income of the Board had been 12.7 per cent and 12.9 per cent respectively by January 2016 as compared with January 2015.

3.3 Legal Action instituted by or against the Board

Cases had been filed against 2 external institutions for claiming of a compensation of Rs.21,900,000 paid by the Board and recovery of tax of Rs.1,902,318 while 2,415 cases had been filed in courts island wide for recovery of contributions amounting to Rs.242,887,355 and surcharge. Moreover, 18 cases had been filed in courts against the Board by external institutions in respect of amounts of Rs.16,292,987 recoverable. Adequate information on their nature, current position etc. had not been disclosed in the financial statements as well.

4. Operating Review

4.1 Performance

The Employees' Trust Fund Board had been established with a view to achieving the objectives such as promoting employees' ownership, employees' welfare, democracy through participation in financing and investment, promoting the employee participation in management through the acquisition of equity interest in enterprises and providing for non-contributory benefit to employees on retirement in terms of Section 7 of the Employees' Trust Fund Board Act, No.46 of 1980.

The following observations are made in respect of achieving the aforesaid objectives.

(a) Accommodations had been made to join self-employed persons to the Employees' Trust Fund, in terms of Section 20 (1) of the Employees' Trust Fund Act, No.46 of 1980 as amended by Section 7 of Employees' Trust Fund (Amendment) Act, No.47 of 1988. According to the Report of the Central Bank of Sri Lanka, the number of self-employed persons of Sri Lanka as at 31 December 2016 stood at 2,511,568. However, only 39,629 members or 1.58 per cent out of the total number could be enrolled as members of the Board. The receipt of contributions from the self-employed persons during the year 2016 amounted to Rs.43,716,657 and it represented 0.22 per cent of the total contribution for that year. The contribution received from the self-employed persons from the year 1989 up to the year 2016 totalled Rs.277,457,066 and it was 0.13 per cent of the Members' Fund existed at the beginning of 2016. Even though a separate Division had been established in the Board to promote this area specifically prescribed through the Funds' Act and strategies had been specified in the Action Plan according to the above observations, the attention paid for it by the end of the year 2016 had been at a minimum level.

(b) The following matters were observed in respect of the compulsory interest of 3 per cent announced to the members of the Board in terms of Section 22 of the Employees' Trust Fund Act and the total return along with the dividend percentage of 6 per cent announced in terms of Section 14 of the Act and the way in which those payments had been funded in the year under review and the preceding years.

  (i) A percentage of 12.5 per cent as interest and dividends had been announced to the members in the year 2010 and that percentage had dropped to 9 per cent by 3.5 per cent by the years 2015 and 2016 during 5 years.

(ii) Even though the Members' Fund of the Board increased continuously, the profit earned during the year did not increase. As such, retained profits or reserves had to be used continuously in the payment of members' dividends. Accordingly, a profit adequate enough to pay interest and dividends could not be earned in the current year and as a result, a sum of Rs.3,858,000,000 had been obtained from the Dividend Equalization Reserve during the period from the year 2010 up to the year 2014. The Dividend Equalization Reserve which was Rs.4,000,000,000 in the year 2010, had dropped to Rs.142,000,000 by the year 2016 and as such, non-existence of a risk in paying dividends to members of the Board in future could not be ruled out in Audit. Moreover, a sum of Rs.37,550,000 had been used from the profits retained for settling dividends of 9 per cent relating to the year 2015.

(iii) Even though a sum of Rs.492,167,000 should have been obtained from the Dividend Equalization Reserve after using the profit earned in that year for funding of interest and dividends amounting to Rs.17,624,426,000 of the year 2014, a sum of Rs.515,000,000 had been obtained from the Dividend Equalization Reserve in that year.

(c) The Board implements about 10 Welfare Benefit Schemes on behalf of its members and in considering the information of the year under review and 3 preceding years, out of the total number of members, the number of members entitled for welfare benefits had taken a low percentage as 0.41 per cent and 0.57 per cent in the year 2015 and the year 2016 respectively. However, the expenditure incurred thereon as a percentage of operating expenditure had taken a high percentage as 22 per cent.

(d) According to the Corporate Plan, plans had been made to study the Members' Accounts Management System and other software systems in developing a new software system by the Information Technological Division and to implement the Disaster Prevention Plan. Nevertheless, those functions had not been performed even by 31 December 2016.

4.2 Investment of Funds

Even though the assistance of a private firm in fund management had been obtained from July 2015 for the consultation on investments relating to the tenor, the productive ratio and the amount in the purchase of Government securities by the Employees' Trust Fund Board, no agreement had been entered into between the two parties. The face value of the primary and secondary market Treasury Bonds purchased with the consultation assistance of that firm in the year 2016 amounted to Rs.24,055,225,802. The legal validity of advice given free of charge without entering into a written agreement and the impossibility of a problematic situation rising on safeguarding the confidentiality of important financial information relevant to the Board could not be ruled out in Audit.

The following observations are further made in respect of investments made on the instructions of the aforesaid private firm in fund management.

(a) Out of 22 successful instances in which quotations were called for auction of Treasury Bonds by the Public Debt Department in the year 2016, there were 13 instances in which 100 per cent of the bids submitted by the Employees' Trust Fund Board had been rejected. In considering the secondary market productive ratios for Bonds so rejected, the quotations submitted to the primary market had been rejected due to submission of bids under high productive ratios without a proper study on the existing market situation. As such, the financial benefits that could have been gained by investing in the primary market had been lost.

(b) Even though the Board had applied through International Securities Identification Number LKB01226F014 issued in May and June 2016 for purchase of Bonds of Rs.2,200 million at a productive ratio between 12.6 per cent and 13.5 per cent at the primary market, all those bids had been rejected. However, the Bond bearing that number itself had been purchased at the secondary market by spending a sum of Rs.1,927 million in May, June and July 2016 under the low productive ratios between 11.8 per cent and 12.8 per cent. Even though Bonds of Rs.2,100 million had been applied to be purchased at the primary market in June 2016 through International Securities Identification Number LKB01025C157 under a productive ratio between 12.7 per cent and 13.26 per cent, those bids had been rejected as well. However, the Bond bearing that number itself had been purchased at the secondary market in July 2016 under a lower productive ratio between 12.25 per cent and 12.58 per cent by spending a sum of Rs.416 million. Accordingly, the Board had lost the opportunity of direct purchasing at the primary market by submitting fair quotations and the Board and the members as well had been deprived of the financial gains due to purchase of the same Bonds with low productivity at the secondary market.

(c) As compared with the productivity ratios submitted in applying for purchase of Treasury Bonds at the primary market by the Employees' Trust Fund Board with those of a Fund engaged in a similar field, the Employees' Trust Fund Board had submitted extremely high productive ratios. As such, instances of lost opportunities of investment are as follows.

Date of Purchase	**International Securities Number**	**Employees' Trust Fund Board**		**Fund engaged in the same field**	
		Rejected Value	**Productivity Ratio**	**Accepted Bond Value**	**Productivity Ratio**
		(Rs.Millions)	**(%)**	**(Rs.Millions)**	**(%)**
11/01/2016	LKB01025H016	1,300	11.13-11.49	1,000	11.10
01/03/2016	LKB00821H019	605	11.6-12.2	1,000	11.4
				2,000	11.45
16/05/2016	LKB01024A014	440	12.2-12.5	1,000	12.10

(d) Treasury Bonds purchased by the Board through the primary and secondary market are classified and maintained as "Bonds retained until maturity". As such, attention had not been paid in gaining financial benefits by selling them at the secondary market.

(e) Even though the Employees' Trust Fund Board is a major institution that invests funds in Government securities, action had not been taken even by 31 December 2016 to acquire the facility of Direct Dealership from the Central Bank of Sri Lanka in the auction of securities.

(f) At the examination of purchase of Treasury Bonds through the secondary market by the Board in the year 2016, those transactions had been carried out by 08 primary dealers and one of the highest percentages representing 41 per cent of the purchases had been made with a controversial private firm. A further 40 per cent had been carried out with another private firm. All purchases made with another six primary dealers had been at a level less than 19 per cent.

(g) The Board had invested a sum of Rs.4,000 million in the bills that mature in 364 days at a productive ratio of 10.35 per cent at the auction of Treasury Bills held on 13 September 2016. The above investment had been made for a low interest rate without a proper study of alternative investment opportunities (debentures/fixed deposits). As such, the impossibility of losing the financial benefits that could have been obtained by the Board could not be ruled out in Audit.

The Chairman of the Board had informed me that the above investment had to be made on a directive of the General Treasury on 12 September 2016 and that it was not possible to carry out a previous study on that investment.

4.3 Transactions of Contentious Nature

The following observations are made.

(a) It had been indicated according to Section 09 of the lease agreement relating to the vesting of the Palatupana saltern with Lanka Salts Limited by the Government that the relevant land or buildings cannot be made use of without prior approval of the Divisional Secretary for any other purpose whatsoever, except for the purposes of the subsidiary. However, the subsidiary had vested 80 perches with the sports club of the Board for the construction of a holiday resort on that land. A loan of Rs.3,000,000 had been granted without any legal basis whatsoever by the Board to the sports club in the years 2012 and 2013 for the construction of that holiday resort for an interest ratio of 10 per cent to be settled in 24 installments.

(b) A basic deposit of Rs.500,000,000 is maintained in a state bank by the Board on an agreement between the two parties in the year 2006 for providing the facility of encashment of cheques on the following day for the cheques deposited in a current account maintained by the Board in the relevant bank. No proper agreement had been entered into between the two parties in respect of that deposit maintained as an agreement of repurchase matured annually and the manner of deciding the annual interest rate as well had become problematic. The bank had charged an additional monthly fee of Rs.100,000 for supplying the relevant service while it was required to maintain a minimum daily balance of Rs.5,000,000 in the account. The interest rate received relating to that deposit had been 6.5 per cent in 2015/2016 and 8.9 per cent to 10.8 per cent in 2016/2017. As a result of the above agreement, the Board had been deprived of the financial benefits that could have been obtained by investing the said amount in an investment with a higher interest of benefit.

4.4 Identified Losses

The following observations are made.

(a) The interest income of Rs.27,497,905 receivable up to the year 2006 for investments made by the Board in debentures of three companies had not been recovered from that year up to the end of the year under review. No provisions in terms of Sri Lanka Accounting Standard 37 or disclosures in the financial statements had been made regarding the legal steps taken in its recovery or the nature of the possibility of recovery.

(b) The net loss from circuit bungalows maintained by the expenditure of the Board for accommodation of the employees of the Board was Rs.2,817,000 in the year 2016 and the net loss of Rs.2,938,000 sustained in the preceding year had affected the decrease in funds existing for paying benefits of members of the Board.

(c) The market value of investments made in three unit trust funds was Rs.356,426,847 as at 31 December 2014. It had decreased by Rs.21,696,000 by 31 December 2015 and by Rs.3,846,000 by 31 December 2016. As such, losses had occurred in those amounts.

(d) Out of 03 companies in which the Board had invested a sum of Rs.25,284,181, two companies had been liquidated and the remaining company had been shown under the Default Board. Even though legal action had been taken in respect of the two companies subjected to liquidation, the Board did not have a definite confirmation of the possibility of the recovery of the value of investments.

(e) The sums of Rs.12,174,382 and Rs.7,450,259 invested in promissory notes and debentures in the Vanik Incorporation PLC should have been realized in the years 2002 and 2007 respectively. However, the Board had failed to realize those amounts even by 31 December 2016.

(f) The fair value of investments in ordinary shares of the Board as at 31 December 2016 was Rs.12,095,980,000 while the fair value had dropped by Rs.465,748,000 or 4 per cent by 31 March 2017.

4.5 Staff Administration

The post of General Manager, which is a chief executive post existing in the approved cadre of the Board had been vacant since the year 2013. The vacancy of this post had directly affected the administrative activities and top management supervision of the Board. Moreover, the non-recruitment of a Chartered Financial Consultant for giving instructions required for the operation and control of the Board's portfolio had not affected the decisions taken in respect of optimum investments, could not be ruled out in audit. This situation had been further confirmed by paragraph 4.2 on observations in respect of investment of funds.

4.6 Operating Activities

The following observations are made.

(a) Contributions totalling Rs.1,764,995,612 recovered from clients from the year 1981 to the year 2014 by the Board and unidentified contributions of Rs.1,228,101 for the period from the year 1996 to the year 2002 had been retained in other temporary accounts instead of crediting to the personal accounts of each member in terms of Section 16 of the Fund Act. As such, there was a risk of the relevant members losing their money. Even though a special unit had been established on 10 February 2016 for crediting these monies to the accounts of the members without delay, only a sum of Rs.137,000,000 out of that had been settled from 01 March 2017 up to 30 June 2017.

(b) The Board provides the employers who have obtained membership only of the Employees' Trust Fund Board without obtaining membership of the Employees' Provident Fund, with temporary registration numbers by registering them as Dummy employers and maintaining those contributions in an account named 'XX'. The number of Dummy employers who had been so registered since the year 1984 had been 14,232 by 31 May 2017. Accordingly, the balance remaining in Account 'XX' as at 31 May 2017 without crediting to the personal accounts of the relevant members amounted to Rs.140,265,923 and the value of contributions and surcharge recovered from those employers in the year 2016 alone amounted to Rs.45,189,980. In this manner, action had not been taken to prepare an appropriate arrangement in registering the employers who are registered as Dummy employers as actual employers of the Board.

5. Accountability and Good Governance

5.1 Internal Audit

The following observations are made.

(a) According to the Action Plan of the Board, the Internal Audit Unit should prepare the monthly account every month, the annual account, budget, annual report and corporate plan annually and carry out the investigations assigned by the Chairman. Nevertheless, action had not been so taken.

(b) Attention had not been paid by the internal audit in covering areas such as investment of funds and its benefits, which is the main role of the Fund.

(c) The staff directly involved in audit in the Internal Audit Unit of the Board was limited to 34 and out of them, graduates and fully qualified or partly qualified persons were 09. The unavailability of an adequately qualified staff in the Internal Audit Unit of a firm with net assets valued at Rs.249,089,083,000 by 31 December 2016 had affected the limitation of its scope.

5.2 Budgetary Control

The following observations are made.

(a) Six instances of variances between the revenue heads ranging from 25 per cent to 96 per cent were observed as compared with the budgeted income prepared by the Board in the year 2016 with the actual income. Dividends on the price quoted shares and money and interest on market deposits had been less than the budgeted amount as 96 per cent and 29 per cent respectively.

(b) Variances relating to 16 items of expenditure ranging from 25 per cent to 50 per cent and 13 items ranging from 50 per cent to 202 per cent were observed between the budgeted and the actual expenditure in the year 2016. Definite benefit planning interest cost, official maintenance and requirements, miscellaneous expenses, and building maintenance expenses had increased by 66 per cent, 130 per cent, 71 per cent and 53 per cent respectively over the budgeted amount while the total expenditure on members had decreased by 39 per cent. Accordingly, significant variances between the budgeted and actual values were observed, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.3 Procurement and Contract Process

It was observed that Guidelines 2.8.1 (b), 2.8.4, 4.2.2 (a) 4.3.1, 4.3.2, 5.2.1 (a), 5.3.10 and 8.9.1 of the Government Procurement Guidelines had been violated due to deficiencies including non-representation of the Technical Evaluation Committee by a subject specialist and a representative of the Line Ministry, non-preparation of a Procurement Time Schedule, non-preparation of a total cost estimate, failure in mentioning the validity period of bids and failure in entering into a proper contract agreement in respect of 5 procurement activities valued at Rs.16,252,053 carried out by the Board for the year 2016.

5.4 Non-implementation of Directives of the Committee on Public Enterprises

---

It had been recommended at the meeting of the Committee on Public Enterprises held on 26 August 2016 that as a firm involved in financial activities, the Chief Executive Officer of the Employees' Trust Fund Board should be the Chairman of the Board as well and that Section 5(2) of the Employees' Trust Fund Act should be amended. However, amendments thereon had not been made even by 31 May 2017.

6. Systems and Controls

Deficiencies in systems and controls 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 systems and controls.

Areas of Systems and Controls	Observations
(a) Accounting	Availability of instances of non-compliance with Sri Lanka Accounting Standards.
(b) Control of Operations	Failure in crediting monies collected from clients to the members' accounts without delay.
(c) Funds Management	(i) Non-investment of monies collected from clients in a manner of obtaining high security and more benefits. (ii) Failure in paying attention to the valuation of invested funds.
(d) Budgetary Control	Failure in taking action in accordance with budgeted income and expenditure.
(e) Internal Audit	Failure in carrying out an adequate internal audit as to cover all areas.