Employees' Trust Fund Board – 2017

The audit of consolidated financial statements of the Employees' Trust Fund Board and its Subsidiary for the year ended 31 December 2017 comprising the consolidated statement of financial position as at 31 December 2017 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(3) 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. 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. Section 10 (1) of the Employees' Trust Fund Act, No. 46 of 1980 gives powers to the Auditor General to determine the scope and extent of the audit.

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

2. Financial Statements

2.1 Opinion – Group

In my opinion, 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 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Opinion – Board

In my opinion, the financial statements give a true and fair view of the financial position of the Employees' Trust Fund Board as at 31 December 2017 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

The financial statements of the Lanka Salt Limited, a subsidiary company of which 90 per cent of the shares had been owned by the Board, for the year ended 31 December 2017, had been directly audited by the Auditor General, and a qualified audit opinion was expressed.

2.3 Comments on Financial Statements – Board

2.3.1 Sri Lanka Accounting Standards

Despite the existence of assets being further depreciated under diminishing balance over a period of 25 years, in the fixed assets of the Board costing Rs. 441,163,000 as at 31 December 2017, those assets had not been revalued in terms of Section 34 of the Sri Lanka Accounting Standard 16 in order to show the fair value thereof.

2.3.2 Accounting Deficiencies

A sum of Rs. 588,000 had been shown as balances that could not be identified under current liabilities as at 31 December of the year under review, but action had not been taken to identify and settle those balances.

2.4 Accounts Receivable and Payable

The following observations are made.

a) Action had not been taken even up to 31 December 2017 to settle the unclaimed scholarship funds amounting to Rs. 1,865,000 that should have been paid to the students who had passed GCE Advanced Level Examination during the period 1994 – 2009.

b) Action had not been taken even up to 31 December of the year under review to identify the relevant members and settle an aggregated sum of Rs. 34,046,205 comprising Rs. 10,170,557 of unclaimed death benefits that had continuously remained increasing since 1995, and retained benefits amounting to Rs. 17,341,449 and unclaimed benefits amounting to Rs. 6,534,199 that had continued to exist since 2001.

However, according to the comments of the Chairman of the Employees' Trust Fund Board, a sum of Rs. 69,454 from the death benefits , a sum of Rs. 4,499,697 from the retained benefits and a sum of Rs. 2,514,785 from the benefits not requested that had not been claimed during the period January – July, 2018 had been paid.

c) Property income of Rs. 7,515,346 shown under miscellaneous debtors as being receivable to the Board over several years, could not be recovered even up to the end of the year under review.

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

The following non-compliances with Laws, Rules, Regulations, and Management Decisions, were observed.

Reference to Laws, Rules and Regulations	Non-compliance
a) Section 1985, and 13.1 (b) of Chapter III of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.	An acting appointment should be made only in the absence of permanent holder of the post, to fill a temporary vacancy, or to cover the duties of a post in addition to the duties assigned. Nevertheless, acting appointments had been made for the non-vacant post of Administrative and Human Resources Manager included in the approved cadre, and the post of Postal Manager not included in the approved cadre of the Board, with effect from 01 April 2016 and 03 November 2014 respectively. Those persons had later been made permanent in the said posts from 01 October 2016.
b) Public Enterprises Circular, No. PED/12, dated 02 June 2003.	
i. Section 9.3.1 (vii)	Acting appointments should be restricted for a period of 03 months in accordance with the Circular. Contrary to the said provisions, the Board had appointed 07 officers in the year under review for a period ranging from 1 ½ years to 4 years on acting basis.

ii. Section 9.14.2 — Action had not been taken to obtain Treasury approval on the scheme of administration and discipline being followed by the Board at present.

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. 17,153 million and Rs. 16,828 million respectively as compared with that of the preceding year's being Rs. 14,346 million and Rs. 13,648 million respectively, thus indicating an improvement in the financial results of the year under review by sums of Rs. 2,807 million and Rs. 3,180 million respectively. The increase in the interest income of the Board for the year under review by a sum of Rs. 3,747 million had mainly attributed to the said improvement.

The analysis on the financial results of the year under review and 04 preceding years indicated that the profit that had amounted to Rs. 14,913 million in the year 2013 had increased to Rs. 17,072 million in the year 2014; but, the profit had decreased to Rs. 13,648 million by the year 2016, and then increased again in the year under review to Rs. 16,828 million. However, when the employee remuneration, income tax, and depreciation on the non-current assets had been adjusted to the financial result, the contribution of the Board in the year 2013 amounting to Rs. 15,905 million had increased to Rs. 17,051 million and Rs. 20,610 million in the year 2016 and 2017 respectively. As compared with the year 2016, the contribution of the year under review had improved by 20.87 per cent.

3.2 Legal Cases Instituted by the Board

A number of 2,321 cases had been filed by the Board at Courts throughout the island in view of the recovery of a sum of Rs. 1,902,318 from a private company, and the recovery of contributions and surcharges totalling Rs. 166,687,328.

4. Operating Review

4.1 Performance

4.1.1 Planning

The following observations are made.

a) The weaknesses such as, lack of facilities for effective operations, non-availability of own office complex and the inadequacy of existing space for operations, inadequate storage for data, failure to attract skilled professionals, and restrictions on career development, along with the threats such as, difficulties in the business realm relating to investments, and lack of investments for achieving higher productivity, had been identified as being detrimental in the SWOT Analysis on the Board (strengths, weaknesses, opportunities, and threats). Nevertheless, strategies had not been identified in the Corporate Plan and Annual Action Plan to overcome the said hurdles.

b) It had been planned to maintain the percentage of Government securities and deposits in state banks at 87 per cent under the strategies for achieving the objective of managing the investment portfolio in the Action Plan of the Investment Division for the year 2017. However, according to the investment policy statement of the Board, a percentage of at least 87 per cent should be maintained solely on the Government securities (Treasury bonds, Treasury bills, and rupee loans). Fixed deposits, debentures, and commercial papers are considered to be other fixed income securities, and the maximum limit of those investments should be 5 per cent. Accordingly, it was observed that key performance indicators had not been accurately identified to measure the performance of Investment Division.

4.1.2 Functionality and Review

The following observations are made.

a) Despite being planned in accordance with the Action Plan to grant membership for 2000 self-employed persons in the year under review, only 996 self-employed persons had been given membership.

b) It had accommodated 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. However, according to the report of the Central Bank of Sri Lanka as at 31 December 2017, the number of self-employed persons had been 2,571,023, but only 40,265 or 1.57 per cent therefrom had been enrolled for the membership of the Board. Although strategies had been set out in the Action Plan by establishing a separate division in the Board for promoting that field which had specifically been mentioned in the Act of the Board, the attention brought thereon remained poor by the end of the year 2017.

c) The improvement of strategies on the development and update of the methodologies for evaluating the performance of the staff set out in the Action Plan of the Human Resource Management Division for the year under review, had been achieved by 30 per cent less than the expected level. Furthermore, the performance, achieved with respect to the strategies linking the individual performance with the monthly incentive scheme, had only been 25 per cent.

d) The interest dividends payable to the members of the Trust in terms of Sections 14 and 22 of the Employees' Trust Fund Act, No. 46 of 1980, had dropped from 12.5 per cent to 10 per cent during the period 2010 – 2014. As for the 2 preceding years and the year under review, the said value had become an unchanged figure of 9 per cent.

4.2 Management Activities

Action had not been taken to obtain approval of the Treasury and the Board of Directors on the scheme of financial procedure formulated by the Board.

4.3 **Investment of Funds**

The following observations are made.

a) The methodology of making investments in a manner that maximizes income whilst minimizing risks when maintaining the investment portfolio of the Employees' Trust Fund, has been stated in Chapter 4 of the investment policy statement of the Board. Accordingly, limits had been defined in the manner of, 87 per cent for Government securities, a maximum of 5 per cent for other fixed income securities, 2 per cent for short-term repurchase, and 6 per cent for share investments (maximum). The composition of investment portfolio relating to the year under review and 2 preceding years, is given below.

Investment Portfolio		2015		2016		2017	
		Value	As a Percentage of the Total Investment Portfolio	Value	As a Percentage of the Total Investment Portfolio	Value	As a Percentage of the Total Investment Portfolio
		Rs. Million	%	Rs. Million	%	Rs. Million	%
I.	Government Securities	194,723	93.08	202,295	86,18	207,295	79.29
II.	Other Fixed Income Securities	1,917	0.92	17,970	7.65	40,382	15.45
III.	Short-term Repurchases	1,751	0.84	2,846	1.21	2,940	1.12
IV.	Share Market	10,803	5.16	11,636	4.96	10,828	4.14
		209,194		234,747		261,445	

Accordingly, of the overall investment portfolio relating to the years 2015 and 2016, ninety three per cent and 86 per cent had respectively been invested in Government securities, but that investment had dropped to 79 per cent in the year 2017, thus observing a decrease of 8 per cent as against the limit of 87 per cent in accordance with the investment policy statement. Furthermore, the investment in other fixed income securities, being 0.92 per cent in the year 2015, had exceeded the approved limit and reached 7.65 per cent and 15.45 per cent in the years 2016 and 2017 respectively. The increase in the investment in fixed deposits amounting to Rs. 70 million in the year 2015, up to Rs. 38,100 million by the year 2017 had directly attributed thereto. As such, it was observed that the increase in investments in securities with short-term periods of maturity whilst the decrease in investments in Government securities with low risks would cause an increased risk with respect to overall investment portfolio.

b) Of the 16 auctions of Treasury bonds conducted by the Central Bank of Sri Lanka in the year 2017, there had been 15 auctions of which bids had been accepted, and the Board had taken part in 14 auctions therefrom. As for the 14 auctions thus attended, all the bids had been rejected in 04 instances whereas over 90 per cent of the bids submitted had been rejected in another 04 instances.

c) When bids are submitted by the Board for Treasury bonds, the bid value submitted under a single ISIN Code is divided into smaller values without properly studying the market behavior thereby submitting bids for each of those values under higher yield rates. Owing to the fact that bids were submitted under higher yield rates by exceeding the average yield rates of the market, it was observed that secondary bids were rejected.

d) The Treasury bonds purchased by the Board through primary market and secondary market were maintained by being classified as " bonds retained until maturity". Hence, attention was not brought on the reaping of financial gains by selling them at the secondary market.

e) Although the Board had been a leading institution in investing funds in the Government securities, action had not been taken even up to 31 December 2017 to obtain the direct bidding facility from the Central Bank of Sri Lanka.

f) The Board had withdrawn from the secondary market transactions relating to the Treasury bonds after the year 2016. Due to failure in taking measures even up to 30 June 2018 in order to be involved in secondary market transactions again, it was revealed that investing the excess funds had become problematic, and the opportunity for investing in low-risk Government securities when maintaining the investment portfolio as mentioned in 4.3 (a) above had been deprived of. It was also observed that no attention had been brought on the activities such as, enhancing the technical facilities required in the involvement in the secondary market of the Treasury bonds, improving the internal controls relating to the investment process, and the development of human resources.

g) No dividend income whatsoever had been received for the year 2017 from the investments of which the average costs had amounted to Rs. 200,402,855, made in 7 companies classified as financial assets to be sold as at 31 December 2017. Dividends had not been received for the year 2016 as well with respect to 05 of those companies.

4.4 Operating Activities

The following observations are made.

a) Contributions totalling Rs. 2,166,965,613 as at 31 December 2017 collected by the Board from client institutions during the period 1981-2016, together with unidentified contributions totalling Rs. 1,307,367 relating to the period 1996-2002, had not been credited to the personal accounts of relevant members in terms of Section 16 of the Employees' Trust Fund Act; instead, those monies had been retained in other temporary accounts. As the monies had been retained in such a manner without being credited to the relevant accounts of the members, the risk for the relevant members to be deprived of their monies had existed.

b) The employers registered only with the Employees' Trust Fund had been registered by the Board as dummy employers. The number of dummy employers so registered from 1984 to 31 December 2017, had been 14,139. The contributions of the said dummy employers had been credited to an account named "XX" instead of being credited to personal accounts, and the balance thereof amounted to Rs. 142,751,290 as at 31 December 2017. A methodology suitable for the dummy employers to be registered as actual employers, had not been formulated.

c) The holiday resort in Anuradhapura being maintained by the Board to provide accommodation for employees of the Board, had continuously sustained losses, and in the year 2017, a net loss of Rs. 3,415,000 had been sustained. The net losses sustained in the preceding years of 2015 and 2016 amounted to Rs. 2,938,000 and Rs. 2,817,000 respectively. Sustaining losses in such a manner had made an impact on the decline of funds to be made use of for paying benefits to the members of the Board.

4.5 Transactions of Contentious Nature

Stating that the Institute had functioned under the Shop and Office Employees Act, overtime payments had been made by considering an hour of overtime had equaled one and half hours, and adding a day's pay when completing 08 hours of overtime on Saturdays/Sundays. The cost on overtime for the year under review amounted to Rs. 22,238,000 indicating an increase of 36 per cent as compared with the year 2016. Officers of the Board should work for 5 ½ days per week in order to claim overtime in terms of the said Act. Although annual leave had been limited only to 21 days, the officers had been provided with 42 annual leave and allowed to work for 5 days per week.

4.6 Staff Administration

The following observations are made.

a) Nineteen posts of the Board had remained vacant as at 31 December 2017 whereas an excess staff had been employed for 16 posts. As the post of General Manager had also remained vacant since the year 2013 in the said vacant staff, a direct impact had been caused on the administration of the Board and supervision of the top level management.

b) Applications should have been called through a public advertisement for the post of Management Assistant- iii (MA 1-2) in accordance with the recruitment procedure set out in Scheme of Recruitment of the Board. However, without doing so, action had been taken in the year under review to fill 39 vacancies in that post based on the applications received from the children of the staff members.

c) The Circulars of the Administrative and Human Resource Divisions had stated that no-pay leave obtained, and disciplinary action taken should be taken into account when granting promotions. Nevertheless, despite the issues relating to the officer who had been appointed on acting basis in the post of Manager of the Postal Division, such as disobedience to official instructions, continuous behavior of misconduct at the regional offices, and problems relating honesty and transparency in dealing with employers officially, he had been made permanent in the said post with effect from 01 October 2016. Furthermore, evidence to the effect that performance reports had been obtained from the Divisional Head of the said officer prior to being made permanent, had not been revealed.

d) In the staff absorption of the year 2013, the post of "Self-employment Manager" had been identified to be maintained in the approved cadre until the end of service of the then officer albeit the said post had not been required any more. However, even after the end of service of the officer employed at the said period, a new appointment had been made since the year 2015 by continuing the post.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

In terms of Letter, No. NP/SP/SDG/17 of the Secretary to the Ministry of National Policies and Economic Affairs Every relating to sustainable development, every Government institution should comply with the 2030 Agenda for Sustainable Development adopted by the United Nations. As the Board had not been aware as to how to act in regard to the activities under its purview, no action had been taken to identify the sustainable development goals and targets, milestones in reaching those targets, and the indicators to measure the achievement of the targets.

6. Accountability and Good Governance

6.1 Internal Audit

a) According to the Internal Audit Plan furnished along with the Action Plan of the Board for the year 2017, it had been planned to examine the investments made in listed shares and non-listed shares. However, it had not been done so in the year under review.

b) The Internal Audit Unit should have annually revised the final accounts, annual budget, annual report, and the Corporate Plan of the Board in accordance with the Action Plan of the Board. But, it had not been done so, and no internal audit had been conducted on the main duty of the Board- investment of funds and the benefits thereof.

6.2 Budgetary Control

The comparison between budgeted income and actual income of the Board for the year 2017 revealed that the profit from the sale of quoted shares, and lease rents of properties had decreased than the budgeted amounts by 84 per cent and 28 per cent respectively whilst variances ranging from 25 per cent to 200 per cent had been observed in 31 Items of Expenditure. The expenditure on the maintenance of machines and equipment, advertisements, miscellaneous expenses, and office maintenance and requirements, had increased over the budgeted amounts by 200 per cent, 174 per cent, 149 per cent, and 69 per cent respectively. Due to overestimates relating to 14 Items of Expenditure, the actual expenditure had decreased from 35 per cent to 95 per cent. As such, considerable variances ranging from 35 per cent to 95 per cent were observed between the budgeted values and the actuals; hence, it was observed that the budget had not been made use of as an instrument of management control.

6.3 Procurements

The following observations are made.

a) Although the Board had obtained consultancy services valued at Rs. 1,423,750 during the year under review, the following instances were observed in which the Guidelines issued in August 2007 by the Procurement Agency had not been followed with respect to "Selection and employment of consultants" in the execution of procurements.

(i) In terms of Paragraph 5.2.1 of the Procurement Guidelines, obtaining the consultancy services mentioned above had not been included in the main Procurement Plan prepared by the Board for the year under review. A total cost estimate had not been prepared as well for those activities in terms of Paragraph 3.4 of the Procurement Guidelines.

(ii) A Procurement Committee had not been appointed for obtaining consultancy services for the Board in terms of Paragraph 2.6.3 of the Procurement Guidelines. The said consultancy services had been obtained without being evaluated by a Procurement Committee on consultancy services in terms of provisions set out in Paragraph 8 of the Guidelines.

(iii) The said consultancy services had been obtained without formulating Terms of Reference (TOR) by detailing out the objectives and scope of the consultation in terms of Paragraph 3.3 of the Procurement Guidelines. The time to be taken for assessing the risk had not been identified as well.

b) There had been severe differences between the purchases actually made and what had been planned as the Procurement Plan for the year 2017 had not been revised in a timely manner. Furthermore, instances were observed in which, failure to purchase the items planned to have been purchased in 47 instances in the year under review, in the specified period, purchasing items in 15 instances that had not been planned to be purchased, and purchases made in small quantities in 05 instances with respect to items planned to be purchased in extensive quantities in the year under review. Hence, it was observed that the Board had planned procurements for the year 2017 without properly identifying the requirements.

c) The following observations are made in regard to the procurement of uniforms costing Rs. 10,325,914 for the officers of the Board for 2018.

   (i) A cost estimate had not been prepared for the said procurement in terms of Section 4.3 of the Government Procurement Guidelines-2006, and hence, the bid surety had been requested as a percentage of the bid value instead of the estimated value contrary to Section 5.3.13 (b) of the Procurement Guidelines.

   (ii) A minimum of 21 days should be allowed to furnish bids under national competitive bidding in terms of Section 6.2.2 of the Procurement Guidelines. Nevertheless, only 18 days had been provided therefor.

   (iii) The number of members in a Technical Evaluation Committee should be 3 to 5 officers in terms of Section 2.8.4 of the Government Procurement Guidelines- 2006. However, the Technical Evaluation Committee relating to the said procurement comprised 20 members, and contrary to Section 2.8.4 (e), the Head and his subordinate of the same Division had represented the Technical Evaluation Committee.

   (iv) Cheques had been furnished in place of bid securities by 02 out of 10 bidders whilst another 02 bidders had furnished bid securities with values lower than 1 per cent of the bid value. According to the bid documents, bid securities up to 120 days of validity should be furnished, but 04 institutions had furnished bid securities of which the period of validity had been lower than that. As bidders had been selected at the discretion of the members of the Technical Evaluation Committee without evaluating the bids contrary to Section 7.8.4 of the Procurement Guidelines, it had been decided to obtain samples for trouser and shirt materials from 3 institutions and one institution respectively both of which had extensive deviations.

   (v) According to Section 2.11.3 (a) of the Procurement Guidelines, the Minutes of the meetings of the Procurement Committee and the Technical Evaluation Committee should be recorded in accordance with a specific Format given in the Procurement Guidelines. However, it had not been done so.

   (vi) Due to failure in efficiently planning the overall process of procurement in terms of Section 4.1.1 (a) of the Procurement Guidelines sarees and trouser materials had been selected at the discretion of those who had worn uniforms. As such, uniforms that had not complied with the specifications had been purchased , and those uniforms had failed in the quality assurance tests as well.

6.4 Unresolved Audit Paragraphs

The following observations are made.

a) The interest income of Rs. 27,497,905 receivable up to 31 December 2006 in respect of the investment made by the Board in the debentures of 02 companies, had remained unrecovered even up to the end of the year under review. Furthermore, neither provisions had been made in the financial statements nor had the disclosures been made in terms of Sri Lanka Accounting Standard 37 relating to the measures taken for the recovery, or the possibility of recovering the said income.

b) Two listed companies in which the Board had invested a sum of Rs. 25,227,541, had been liquidated. The Board had no certainty as to the possibility of recovering the value of those investments.

c) Sums of Rs. 12,174,382 and Rs. 7,450,259 invested in the promissory notes of the Vanik Company, and debentures respectively should have been realized in the years 2002 and 2007 respectively, but the Board had not been able to realize the said sums even up to 31 December 2017.

d) Despite being recommended at the COPE meeting held on 26 August 2016 that the Section 5(2) – the Chief Executive Officer of the Board should be the Chairman of the Board, set out in the Employees' Trust Fund Act, be amended, it had not been so done even up to 31 May 2018.

7. 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 control.

Areas of Systems and Controls	Observations
a) Management of Members' Funds	(i) Failure to promptly credit the contributions that had not been credited so far to the personal accounts of the members of the Board, to the relevant accounts. Failure to take action to promptly pay the retained benefits to the relevant persons.
	(ii) Failure to invest contributions collected from the employers yielding more benefits and ensuring higher security.

b)	Budgetary Control.	Failure to act in compliance with the budgeted income and expenditure.
c)	Procurement Process	Failure to plan procurements by identifying the requirements and make procurements in accordance with Procurement Guidelines.
d)	Staff Administration	Failure to implement a proper administration process for the staff of the Board.
e)	Planning	Failure to identify the strategies by identifying the risks and opportunities in the business environment.