

## **Employees' Trust Fund Board – 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Employees' Trust Fund Board ("Board") and consolidated financial statements of the Board and its Subsidiary ("Group") for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended including a summary of significant accounting policies, 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 provisions of the National Audit Act, No. 19 of 2018 and the Finance Act, No. 38 of 1971. My comments and observations which I consider should be reported to Parliament, appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Board and the Group as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Board.

#### **1.4 Scope of Audit (Auditor's Responsibility for Audit of Financial Statements)**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Board to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board ;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

### 1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance Reference to the Standard	with the relevant Management	Comments of the	Recommendation
(a) According to Section 25 of Sri Lanka Accounting Standard No. 7 (SLFRS), an entity shall disclose the fair value of all financial assets and financial liabilities in a way that permits it to be compared with its carrying amount. Nevertheless, the Board had not taken action accordingly.	Central Bank Bonds and Corporate Debentures have been maintained as financial investments which were held up to maturity and as such, the relevant fair value had not been disclosed and action will be taken to disclose them in future.		In terms of Sri Lanka Accounting Standards, action should be taken to disclose the fair value of financial assets.
(b) According to Sri Lanka Accounting Standard 9 (SLFRS 9), the financial	Impairment is not applicable therefor due to reasons such as Central Bank Bonds being		In terms of the Standard, financial assets at amortized cost should be reported at

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| <p>assets at amortized cost should be reported at the amortized cost. However, assets valued at Rs.61,191 million had been reported at the cost by the Board.</p>   | <p>financial instruments guaranteed by the Government, repurchase agreements have been invested in Treasury Bills and Kerawalapitiya Bonds are as well financial instruments guaranteed by the Government. Action will be taken in the future to impair the housing financial facility provided by NDB and SMIB maintained as a re-financial facility. Moreover, action has been taken to settle all remaining staff loans within a short period such as one year and as such, the impairment is not applicable therefor as well.</p> | <p>amortized cost.</p>   |
| <p>(c) According to Section 28 of Sri Lanka Accounting Standard No. 8 (LKAS), disclosures which should be made under Sri Lanka Accounting Standard 9 with effect from 01 January 2018, had not been made by the Board.</p>  | <p>Action will be taken to disclose in future.</p>  | <p>Disclosures which should be made under Sri Lanka Accounting Standard 9, should be made.</p>     |
| <p>(d) A revaluation of assets should be carried out to measure the fair value in terms of Sri Lanka Accounting Standard 16 (LKAS 16). However, fixed assets, of the Board costing Rs.502,896,000 as at 31 December 2018 comprised of assets which are being depreciated under diminishing balance method over a period of 25 years. However, steps had not been taken to revalue those assets.</p> | <p>In terms of Section 30 of Sri Lanka Accounting Standard No.16, property, plant and equipment are brought to account at the Cost Model and as such, Section 34 of the Sri Lanka Accounting Standard 16 is not applicable. It has been continuously used during past 37 years.</p>   | <p>A revaluation of assets should be made for measuring the fair value of assets of the Board.</p> |

## 1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>Action had not been taken to credit the contributions totaling Rs.2,002,707,920 recovered during the period from the year 1981 to 31 December 2017 from employers by the Board, to the personal accounts of each member in terms of Section 16 of the Employees' Fund Act.</p>	<p>A sum of Rs.196,948 million had been received as contributions from the year 1981 to 31.12.2017 and the value of members' contributions retained in accounts of employers without crediting to accounts of each member as at 30.05.2019, had been Rs.1,519 million. This value is 0.77 per cent of the value of members' contributions received.</p> <p>In addition to that, crediting of members' contributions to members' accounts has been delayed due to various reasons such as failure in providing particulars on employees by employers, confusion of the manner in which members' contributions should be divided at instances of paying them by one cheque itself for several institutions and confusion on data included in half-yearly reports provided by institutions.</p>	<p>Improvement of the methodology for recovery of members' contributions so as to recognize correctly and speedily the members to whom contributions should be credited and necessary action should be taken to recognize the unrecognized members, contributions speedily.</p>

## 1.6 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
<p>The Shops and Office Employees Act, No.19 of 1954</p>	<p>In making payments for overtime, only one and a half (1 ½) of the</p>	<p>Since the inception of the Board, the overtime has been calculated at a</p>	<p>As an institution for which the Shops and Office Employees Act</p>

salary per normal hour should be paid per hour of overtime. However, the Board had made payments for overtime by adding a day's pay in addition to the payments of overtime with completion of 08 hours of overtime on Saturday/Sunday and the cost of overtime in the year under review had been Rs.18,615,000. Further, in terms of the Act, officers of the Board shall work five and a half days per week for claiming overtime. Moreover, even though annual leave had been limited only to 21 days, contrary to that, officers had been allowed to obtain 42 annual leave and work 05 days per week.

rate of 1 ½ hours per hour and a day's pay for 08 hours of overtime. Accordingly, it is mentioned that changing the methodology followed during past 37 years would be a reason to collapse the peace among labourers. According to the Shops and Office Employees Act, engaging in the service for a period of 45 hours per week for calculating overtime, is not practically implemented in public corporations and statutory institutions. Moreover, a period less than half an hour is spent for tea or lunch during 5 working days and due works per half-day of Saturday is covered by engaging in the remaining period of service in 5 working week days. Accordingly, payments for overtime are made for the whole day of Saturday.

is applicable, the Board should take action in terms of provisions of the said Act regarding overtime and leave.

## **2. Financial Review**

### **2.1 Financial Results**

The operating result of the Group and the Board for the year under review had been profits of Rs.14,848 million and Rs.14,851 million respectively as compared with the corresponding profits of the Group and Board of Rs.17,153 million and Rs.16,828 million for the preceding year, thus indicating a decline of Rs. 2,305 million and Rs.1,977 million in the financial results of the Group and the Board respectively. The increase in the expenditure on income tax of the Board by Rs.689 million or 25 per cent due to increase in tax rates under the Inland Revenue Tax Act, No.24 of 2017, had been the main reason for the said decline.

### 3. Operating Review

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#### 3.1 Management Inefficiencies

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<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
Action had not been taken even by 31 December of the year under review to identify relevant members and settle an amount totaling Rs.24,206,134 comprising unclaimed death benefits of Rs.12,475,760 on the increase continuously since the year 1995 and retained benefits of Rs.7,803,642 brought forward from the year 2001 and unclaimed benefits of Rs.3,926,732.	<p>Death benefits had been paid to 05 persons within the first four months of the year 2019 and the balance payable to nominees amounts to Rs.12,380,049.</p> <p>Benefits of Rs.3,634,767 returned, had been paid as benefits to 91 beneficiaries relating to the said period and the balance to be paid as at 30.04.2019 amounts to Rs.4,168,874.</p> <p>A sum of Rs.99,975 had been repaid to one beneficiary of 101 applicants in the Return Benefits – Welfare Account (from January 2019 to 30 April 2019) and the value of further unpaid benefits as at 30.04.2019 amounts to Rs.988,873.</p>	It is the Management’s responsibility to make arrangements for settlement of unclaimed death benefits remaining unsettled and retained benefits and benefits not applied for, by separately identifying them.

#### 3.2 Operating Inefficiencies

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<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
(a) According to the Investment Policy Statement approved by the	The Board had prepared a formal investment policy in the year 2012 and it has been	Action should be taken according to a formal investment policy.

Board of Directors in the year 2012, the Investment Portfolio had been decided as 87 per cent investments in Government securities, 6 per cent as maximum share investment and 7 per cent as other fixed securities and short term repurchasing. However, the investment in Government securities had been reduced after the year 2016 without carrying out a formal review and a revision to the investment statement and instead of that, investment of fixed deposits had been increased. Investment in securities had been 86 per cent, 79 per cent and 76 per cent respectively while the investment in other fixed securities had been 8 per cent, 15 per cent and 19 per cent in the years 2016, 2017 and 2018 respectively. Accordingly, it was observed that the increase in investments with short term maturity and the decrease in investment in low risk Government securities could result in the increase in the risk of the entire investment portfolio.

approved by the Board of Directors. According to decisions taken later by the Board of Directors, investments made in fixed deposits of state banks were to be considered extraneous to the 5 per cent share of the investment policy. Moreover, the investments in fixed deposits of the three largest state banks in Sri Lanka are made within the limits approved by the Board of Directors since the year 2017. Accordingly, the minimum percentage of 87 per cent is considered as the total of Government securities and fixed deposits of state banks.

The investment policy has been approved by the Board of Directors. It is revised as well by the Board of Directors on timely requirements. Investments made in accordance with revisions made to the investment policy with the approval of the Board of Directors, should be identified as investments made according to the investment policy.

(b) As Treasury Bonds purchased by the Board through primary and secondary markets are categorized and maintained as “Bonds retained until Maturity”, attention had

The Fund has a long term vision. Accordingly, by retaining the bond until maturity, the Board receives a high interest rate. To gain capital profits by selling bonds with high interest rates, the

Attention should be paid to gain financial benefits by maintaining and selling part of the Treasury Bonds for secondary market transactions.



not been paid towards gaining financial benefits by selling them in the secondary market.

market interest rates should be lower than the said interest rate. Sales should be made to gain profits only in instances in which the interest rates are low.

Even though a profit is gained in such conditions, moneys received from sale have to be instantly reinvested in Bonds with low interest. If such condition continues, only Bonds with low interest will remain in the Fund. Even though such sales can be carried out only in certain strategic instances, it is inappropriate to carry on long term, as a percentage.

(c) Even though the Board is one of the foremost institutions in investing funds in Government securities, the Direct Bidding Facility at auctions of securities had not been obtained even by 31 December 2018.

Continuous requests had been made thereon to the Central Bank and action is being taken to arrange the necessary environment for obtaining Direct Bidding Facility.

Action should be taken to gain more benefits to the Board by obtaining Direct Bidding Facility.

(d) The Board had withdrawn Treasury Bonds from secondary market transactions after the year 2016 and had not been involved in secondary market transactions even by 31 December 2018. As such, it was revealed that investing the excess funds had become problematic, and when maintaining the investment portfolio the opportunity for investing in low-risk Government securities had been deprived of.

Accordingly, it had been submitted to the Department of Management Services for obtaining necessary approval for recruitment of relevant employees. Nevertheless, approval had not been granted up to now, in a manner to suit the requirement. Moreover, unlike in the past, the Central Bank at present issues bonds in the primary market every month. As such, the opportunity of direct investment in bonds through primary market has expanded.

Re-entering Treasury Bonds into secondary market transactions and technical facilities, internal control and human resource development should be carried out therefor.

### 3.3 Management of the Motor Vehicle System

Audit Observation	Comments of the Management	Recommendation
<p>The Fund had obtained motor vehicles on hire basis for the years 2017 and 2018 from the same institution selected in the year 2016 without following the formal procurement process and obtaining approval from the Board of Directors. Accordingly, sums of Rs.8,386,279 and Rs.7,683,335 had been paid respectively for 16 and 15 motor vehicles obtained on hire basis for the said two years.</p>	<p>Seven motor vehicles older than 10 years, that had been running, have been disposed of.</p> <p>As such, several motor vehicles have been decided to be obtained on temporary hire basis and implementing this decision only until a permanent solution relating to motor vehicles was the idea of the Board. Accordingly, approval had been obtained under the Paper No.652 dated 28.01.2016 of the Board of Directors for obtaining motor vehicles on hire basis.</p> <p>As such, quotations were called from three contractors who supply motor vehicles at a low price and out of them, motor vehicles were obtained on hire at the minimum quotation to suit our requirement. Motor vehicles have been obtained on hire basis at a very low price from time to time until purchase of motor vehicles in the year 2019 according to requirements of the Board. At present, all motor vehicle requirements of the Board have been fulfilled and obtaining motor vehicles on hire basis in this manner had been completely discontinued.</p>	<p>In obtaining services to the Board, procurement activities should be timely carried out in terms of provisions and Guidelines indicated in the Government Procurement Guidelines.</p>

**4. Accountability and Good Governance**

**4.1 Corporate Plan**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>According to the Corporate Plan, from about the year 2014, as targeted by the Information Technology Division, functions such as studying the presently existing Members' Accounts Management System and other software system and developing a new software system and implementation of plans for preventing disasters, had not been achieved even by the end of the year 2018.</p>	<p>The Management was decided to consider the manner in which the existing computer system, which is about 18 years old, after the ICTA Institute carries out the Business Process Improvement Study. As such, the restructuring and improvement of the computer system could not be carried out in the year 2016.</p> <p>This study has been carried out by MG Consultants (Pvt) Ltd through the ICTA Institute and completed during the middle of the year 2018. Afterwards, the creation of the new computer system had been assigned to the INNOVA Institute by the ICTA Institute and those activities are being expedited at present.</p> <p>Accordingly, action is being taken to introduce a computer system with full patronage of the Government to enable all facilities to the Board to suit modern technology in the year 2020.</p> <p>Moreover, the plan on preventing disasters could not be implemented in the year 2016. However, the necessary arrangements for implementation of plans for preventing disasters to suit the</p>	<p>Action should be taken to formulate efficient and effective methodologies to achieve objectives and functions indicated in the Corporate Plan.</p>

new computer system, have been commenced in the years 2019/2020.

**4.2 Annual Action Plan**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>According to the Action Plan, it had been planned to include 880 persons engaged in self-employment as members in the year under review. However, membership had been provided only to 354 persons engaged in self-employment.</p>	<p>According to the Action Plan, in terms of our Act, it had been planned to enroll self-employed persons and emigrants. However, only a very few number had been enrolled as members voluntarily. These enrollments have been made efficient in the year 2019 and 668 members have been enrolled as at 30 June. It is informed that action is being taken to enroll more members in future.</p>	<p>An appropriate methodology should be followed in the performance of functions indicated in the Action Plan.</p>

**4.3 Recommendations of the Committee on Public Accounts and the Current Position**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>According to the Incorporated Act, the Chief Executive Officer of the Board shall be the Chairman of the Board. However, it had been recommended at the Committee on Public Enterprises held on 26 August 2016, that Section 5(2) of the Employees’ Trust Fund Act, which mentions that the Chief Executive Officer shall be the Chairman of the Board as well, should be amended. Nevertheless, the Board had not taken action even by the end of the year 2018 to make necessary amendments to the Act.</p>	<p>It is agreed.</p>	<p>The Board should take action to make necessary and timely amendments to the Employees’ Trust Fund Act.</p>

#### 4.4 Internal Audit

Audit Observation	Comments of the Management	Recommendation
<p>(a) According to the Internal Audit Plan presented along with the Annual Action Plan of the Board for the year 2018, it had been planned to examine listed shares, unlisted shares and investments with stable income. Nevertheless, the said activities had not been carried out during the year under review.</p> <p>(b) According to the Action Plan of the Board, the Internal Audit Unit has planned to examine the procurement activities, repairs of motor vehicles and building rents and to maintain the Register on Risk Assessment of the Board. However, it had not been carried out as planned.</p>	<p>In addition to previous Audit activities, audits relating to collection and banking of contributions, auditing regional offices, monthly reconciliation statements, progress on contribution and income from surcharge for 2017, Annual Board of Survey for 2016 and loans for purchase of motor vehicles and bicycles have been carried out in the year 2018. The Audit on listed and unlisted shares has been planned to be carried out in the year 2019. Risk Management Committees have been appointed relating to risk management and future activities are carried out accordingly.</p>	<p>The Internal Audit Unit should take action efficiently and effectively to perform the functions indicated in the Action Plan.</p>

#### 4.5 Sustainable Development Goals

Audit Observation	Comments of the Management	Recommendation
<p>Every Government Institution should act in terms of the “Year 2030 Agenda” of the United Nations on sustainable development and the Board was aware of how action should be taken relating to functions which come under its scope. However, Action had not</p>	<p>It is being studied at present and the targets relevant to the Board are to be identified.</p>	<p>The Board should act in terms of the “Year 2030 Agenda” of the United Nations on sustainable development.</p>

been taken to identify sustainable development goals, targets and focal points in reaching those targets and indices for measuring the reaching of targets.