

Employees' Trust Fund Board and its Subsidiary - 2019

1.1 Qualified Opinion

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 2019 comprising the statement of financial position as at 31 December 2019 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 2019, 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

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

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)

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 scepticism 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 with Reference to the relevant Standard	Comments of the Management	Recommendation
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(a) In correcting prior year errors in terms of paragraph 42 of Sri Lanka Accounting Standard 8, it should be carried out by restating comparative values in the financial statements. However, contrary to that, prior year adjustments of Rs.262,450,000 had been adjusted to the opening retained profit of the year under review.	Action has been taken to recognize all adjustments and to indicate them by deducting from the profit brought forward in the statement of changes in equity.	Action should be taken to correct prior year errors in terms of Sri Lanka Accounting Standards.
(b) In correcting prior period errors in terms of paragraph 49 of Sri Lanka Accounting Standard 8, the nature of the error, the amount of	Action will be taken to disclose in the future.	Disclosures regarding financial assets should be made in terms of Sri Lanka Accounting Standards.

the correction and information on items affected by making corrections should be disclosed in financial statements. However, information on prior year adjustments made with regard to 04 categories of financial assets at amortized cost valued at Rs.12,044,755,000 had not been disclosed in the financial statements.

- (c) In terms of paragraph 88 of Sri Lanka Accounting Standard 12, contingent assets and contingent liabilities arisen from unresolved disputes with the taxation authorities should be disclosed in financial statements. It was observed that the income tax refund receivable to the Board according to the tax return prepared for the assessment year of 2018/2019, is increased by Rs.2,815,315,156 than the income tax refund receivable according to the financial statements of the year under review. However, the disagreements with the Inland Revenue Department in regard to reasons for the said difference and those differences had not been disclosed in the financial statements.
- The Notional Tax credit for the investment on Treasury Bonds before 01/04/2018 and interest of 3 per cent divided annually among members of the Board have been requested as a tax refund. Further, Withholding Tax on fixed deposits and the debenture interest income had been adjusted on cash basis of the tax return for account activities. Those adjustments had mainly attributed to the said difference.
- Matters which are under discussion with the Inland Revenue Department should be disclosed in terms of Sri Lanka Accounting Standards.
- (d) According to paragraph 30 of Sri Lanka Accounting Standard 18, the dividend income of the Board should be recognized when the Board's right to receive payment is established. However, the Board had not been taken action to recognize dividend income of Rs. 67,500,000 in the financial
- It has been failed to recognize as a dividend income of the Board due to inadequate details for recognition of dividends and action has been taken to disclose consolidated accounts in the statement of comprehensive income.
- Action should be taken to recognize the dividend income in terms of Sri Lanka Accounting Standards.

statements, entitled to the Board out of dividends declared in the year 2019 by the Lanka Salt Ltd which is the subsidiary of the Board relating to the year 2017. As such, liabilities of Rs. 59,307,807 had been shown as dividends payable (After deducting the Withholding Tax) in the financial statements of the Group. Therefore, it was observed that income, assets and liabilities are not correctly represented in the financial statements of the Group.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
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<p>(a) Contributions totalling Rs. 862,340,944 recovered during the period from the year 1981 to the year 2018 from 7,946 members by the Board as at 31 December 2019, had been retained in other temporary accounts without crediting to the personal accounts of each member in terms of Section 16 of the Employees' Trust Fund Act. As such, members could not recall their contributions.</p>	<p>Transferring of these contributions from employers' accounts to members' personal accounts has been failed due to various reasons such as failure in providing particulars on employees by employers, not tallying the total of contributions as per particulars of employees and the total of contributions paid and confusion of the manner in which members' contributions should be divided at instances of paying them by one cheque itself for several institutions.</p>	<p>Improvement of the methodology for recovery of members' contributions so as to recognize correctly and promptly the members to whom contributions should be credited and necessary action should be taken to recognize the unrecognized members' contributions promptly.</p>
<p>(b) Even though an unrecognized credit balance amounting to Rs. 61,300,876 had been indicated as unclaimed Withholding Tax relating to the year 2019 under other liabilities of the balance sheet, documents of confirmation of the said balance had not been made available to Audit.</p>	<p>Even though taxes are adjusted by recognizing interests on fixed deposits and debentures as the revenue on accrued basis, Withholding Tax certificates are issued to the Inland Revenue Department on cash basis, thus resulting in this balance and after reaching a concurrence with that department thereon, the relevant adjustments will be made.</p>	<p>Action should be taken to recognize the unrecognized balances and to settle them promptly.</p>

(c) In correcting the interest in the year under review on repurchase agreements amounting to Rs. 164,000,000 overstated in the income relating to the year 2018, action had not been taken to adjust the expenditure on income tax of Rs. 22,960,000 of the preceding year, overstated relating to the said income. Adjustments will be made in paying final tax installment of the assessment year of 2019/2020. Action should be taken to make relevant adjustments in the financial statements.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) The Shops and Office Employees Act, No.19 of 1954	In making payments for overtime, only one and a half (1 ½) of the normal salary per 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. Moreover, the cost of overtime of the Board in the year under review had been Rs. 25,505,000. Further, in terms of the Act, officers of the Board shall work five and a half days per week. 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.	Employees have been granted 42 annual leave for a long time according to current practice of the Industry. The recommendation of the Employers' Federation of Ceylon regarding the reduction of annual leave up to 21 days in terms of the Shops and Office Employees Act that limitation of privileges enjoyed would be a reason to collapse the peace among employees.	As an institution for which the Shops and Office Employees Act is applicable, the Board should take action in terms of provisions of the said Act regarding overtime and leave.

<p>(b)Public Enterprises Circular No.PED/12 of 02 June 2003 Sections 8.3.9 and 9.4</p>	<p>An officer of an institution cannot be released to a Ministry or another institution without approval of the Cabinet of Ministers and no wages whatsoever should be paid to the period so released. However, contrary to that, 14 officers of the Board had been released from time to time to Government institutions including local authorities during the period from the year 1990 to the year 2019. It was observed at the audit test checks carried out on payment of allowances including salaries for 13 officers so released during the period from the year 2006 to the year 2015 that a sum totalling Rs. 23,859,942 comprising Rs. 22,678,727 as salaries and Rs. 148,799 as overtime and holiday pays had been paid during the said period in manner of resulting in a fruitless expenditure to the Board. Moreover, bonus as well had been paid to officers during the said period and information on bonus so paid had not been made available to Audit. Further, action had not been taken to recover any payment whatsoever from relevant institutions.</p>	<p>It is expected to release in accordance with approved Government procedures from 2020 onwards.</p>	<p>Action should be taken in terms of provisions of Public Enterprises Circular.</p>
<p>(c)Paragraphs 04 (b) and 05 of the Public Finance Circular No.2/2015 of</p>	<p>Motor vehicles which are not older than 10 years from the date of registration, should be disposed of on the approval of the Department of Public Finance and the Chief</p>	<p>The Board of Survey had been appointed according to powers conferred on the Chairman of the Board.</p>	<p>Activities of disposal relating to motor vehicles should be carried out in terms of circular provisions.</p>

10 July 2015 Accounting Officer. However, 2 and paragraph motor vehicles which were only 07 of the 6 and 7 years old after purchase, National had been disposed of without Budget such approval. Moreover, a Circular Board of Survey should be No.2/2015 of appointed by the Accounting 31 March Officer or the Chief Accounting 2015 Officer for disposal of motor vehicles. However, action had not been so taken in appointing the Board of Survey for the disposal of the two aforesaid motor vehicles.

(d)Letter No.PE/IN/ET F/Gen of 10 November 2014 of the Deputy Secretary to the Treasury	Concurrence had been given by the Ministry of Finance and Planning for granting of loans under the housing loan scheme implemented with the State Mortgage and Investment Bank, to the staff of the Board at the interest rate of 4.2 per cent. However, the Board had granted housing loans to the staff at an interest rate of 4 per cent.	The annual interest rate had been revised up to 4 per cent by the Administration and Human Resources Division Circular No.2005/21 issued by the Board in compliance with Public Administration Circular No.08/2005	Interest should be charged on housing loans as per the concurrence of the Ministry of Finance and Planning.
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1.7 Financial Management

Audit Observation -----	Comments of the Management -----	Recommendation -----
According to the agreement relating to the granting of loans under the housing loan scheme to the staff implemented with the State Mortgage and Investment Bank, (as per the revisions in the Letter dated 16 March 2006 forwarded to the Board by the Bank) the capital repayment of loan installments recovered from employees should be remitted to the Board once in 03 months. However, it was observed in audit that the Bank has added the capital repayment of monthly loan installments to the balance of the account at the end of the year and shown	Action will be taken to call for the capital sum once in 03 months in future and action has been taken to brief the State Mortgage and Investment Bank thereon. Moreover, action will be taken in future to reconcile the interest of the Initial Deposit Account monthly. It is also expected to update the agreement promptly.	The Board is responsible for taking action so that maximum benefits are reaped from the funds.

contrary to the said agreement. As such, it was observed that no interest whatsoever is gained by the Board on the capital repayment of loan installments in the relevant year and the said monies cannot be invested in any other source of investment as well. Accordingly, the capital repayments of loan installments on which an adequate income had not been earned by the Board during the 7 year period from the year 2013 to the year 2019, had amounted to Rs.14,424,546, Rs.16,810,432, Rs.20,053,440, Rs.22,256,164, Rs.24,333,502, Rs.25,101,662 and Rs.26,637,913 respectively. Moreover, the aforesaid housing loan scheme is implemented on an agreement entered into in the year 1990 with the State Mortgage and Investment Bank. However, action had not been taken to update the agreement so as to suit current requirements. Moreover, attention had not been drawn to matters such as whether interest on the balance of the Initial Deposit Account is paid by the Bank as per the agreement, whether the Board is made aware of the revisions made on the interest rate and whether an adequate and fair interest income is received every month.

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.15,836 million and Rs.16,098 million respectively as compared with the corresponding profits of the Group and Board of Rs.14,848 million and Rs.14,851 million for the preceding year, thus indicating an improvement of Rs.988 million and Rs.1,247 million in the financial result of the Group and the Board respectively.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Action had not been taken even by 31 December of the year under review to identify the relevant members and to settle a sum totalling Rs.29,316,937 comprising of unclaimed death benefits amounting to Rs.14,452,258 continuously on the increase since the year 1995 and retained benefits amounting to Rs.14,864,679 brought forward from the year 2001.	In the event of several beneficiaries claiming the benefits of members after their deaths, all the said beneficiaries had not presented themselves at the same time and some of them had not made adequate information available. As such, their shares had been retained in the accounts of the Board and taking action to pay only the shares of persons who had submitted documents, is the method currently existing.	The Management is responsible for making a suitable arrangement for separate identification of unsettled and unclaimed death benefits, retained benefits and unclaimed benefits and the settlement thereof.

3.2 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The details of the composition in which investments should be made so as to maximize the income and to minimize the risk in handling the investment portfolio of the Board, is indicated by Chapter 4 of the Investment Policy Statement. Accordingly, limits had been decided as 87 per cent investments in Government securities, 5 per cent (maximum) as other fixed income securities and 2 per cent as short term repurchase agreements and 6 per cent (maximum) as share investments. Moreover, as decided subsequently, investments made in fixed deposits were to be considered extraneous to the 5 per cent sector of the investment policy. However, investment in Government securities which had been 79 per cent and 75 per cent of the entire investment portfolio in the years 2017 and 2018 respectively, had been 78 per cent in	In the instances where bids were rejected in the primary market and in instances where an auction of Bonds is not held, the only alternative for investing funds was investment in fixed deposits of the three state banks. However, the investments in fixed deposits of the state banks are made within the limits by prior approval of the Board of Directors. The percentage of 79 per cent in the year 2017 had been 75 per cent in the year 2018. Nevertheless, it had increased up to 78 per cent in the year	Action should be taken either in accordance with the Investment Policy of the Board or the current Investment Policy should be revised so as to comply with present market trend.

the year 2019. Moreover, it was observed that it had been a 9 per cent decrease than the 87 per cent which was the limit according to the Investment Policy Statement.

2019. It had further increased up to 81 per cent as at 18.06.2020.

(b) 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 from the Central Bank of Sri Lanka even by 31 December 2019.

Action is being taken to arrange the necessary environment for obtaining Direct Bidding Facility. Accordingly, the approval of the Board of Directors had been granted to recruit the staff necessary for expanding investments and it had been submitted to the Department of Management Services for obtaining further approval. However, approval had not been received so far to suit the requirement.

Action should be taken by the Board to gain more benefits to the Board by obtaining Direct Bidding Facility at auctions of Government securities from the Central Bank of Sri Lanka.

3.3 Procurement Management

Audit Observation	Comments of the Management	Recommendation
<p>The silk sarees which had been purchased in the year 2019 to be worn as the uniform, had been distributed at the rate of 4 sarees each to the female officers. However, they had refused to wear those indicating reasons such as difficulty in wearing as the fabric was slippery, inconvenience in wearing on rainy days as it was flimsy and as it was prone to damage by fixing with safety pins. As such, 2 sarees each had been taken back from the said officers and had been exchanged for 2 cotton sarees each for the same price from the firm of purchase itself. The cotton saree which was exchanged, had not been quality tested and it had been obtained contrary to technical specifications. The sarees purchased for the second time for the year 2019, had been issued on 01 July 2019 and informed to report to duty from 01 August</p>	<p>This had been only an exchange of two sarees and the Board had not incurred an additional expenditure therefor.</p>	<p>In the selection of uniforms, action should be taken to select them according to the requirement, in compliance with specifications previously specified and it should be ensured that the expected objective is achieved by the expenditure incurred.</p>

2019, dressed in the said uniforms. Accordingly, a sum of Rs.5,093,000 had been spent for uniforms of females for the year 2019. However, it was observed that the expected objective had not been achieved by the said expenditure as those uniforms had not been worn by the officers throughout the year.