

## **Employees' Trust Fund Board - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the consolidated financial statements of the Employees' Trust Fund Board ("Board") and of the Board and its Subsidiary ("Group") for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, 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 Finance Act No. 38 of 1971. My comments and observations which I consider should be report 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 accompanying financial statements give a true and fair view of the financial position of the Board and the Group as at 31 December 2020 and of its financial performance and its 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 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 determine 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 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 Audit Scope (Auditor's Responsibility for the Audit of the 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 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, misrepresentations, 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 Fund'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 Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's 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 auditor's report. However, future events or conditions may cause the Fund 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 Fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Audit Observations in relation to the Preparation of Financial Statements**

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

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<b>Non-compliance with Reference to the Relevant Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) Although the nature and objectives of the reserves maintained by an entity under Section 79 (b) of Sri Lanka Accounting Standards No. 01 should be disclosed in the financial statements, such disclosures had not been made with respect to the two reserves, namely, the Dividend Equivalent Reserve and the other reserves maintained by the Board.	The reserves of the Board had been identified separately and shown separately in the statement of changes in equity. Actuarial gains / losses have been specified by the Board under other reserves. If it is required to disclose it further, we will make arrangements to reveal it in the future.	Adequate disclosure should be made in accordance with the Standard.
(b) Although the Measurement Base used to determine the carrying value of non-current assets in accordance with paragraph 73 (a) of Sri Lanka Accounting Standard No. 16 should be disclosed in the financial statements, the basis followed (cost model or revaluation model) for the determination of the carrying value (Measurement after recognition) in the periods following the initial recognition of the assets had not been disclosed in the financial statements.	The Board measures its non-current assets on a cost model in accordance with paragraph 29 of the Sri Lanka Accounting Standards No. 16. If further disclosure is required, we will take steps to disclose in the future.	Adequate disclosure should be made in accordance with the Standard.

## 1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>The contributions totalling to Rs.943.78 million as at 31 December 2020 charged from 8,213 employers during the period from 1981 to 2019 by the Board had been retained in the employer's accounts without being credited to the personal accounts of each member in terms of Section 16 of the Employees' Trust Fund Board Act. It was observed that there was a risk of losing money for the relevant members by retaining in this manner without identifying the relevant member accounts and crediting them to those accounts. However, the Chairman of the Board had informed me that a sum of Rs. 381.86 million, out of this balance, had been settled as at 16 August 2021.</p>	<p>The division of money had been delayed as the employers had not submitted the reports that should be submitted by including details of the contributions of their employees and also there had been shortcomings in the submitted reports. Furthermore, field officers had lost the opportunity to go to the relevant institutions and to obtain and / or rectify these reports due to the prevailing Covid pandemic.</p>	<p>Improving the method of charging members' amounts in a manner that it is possible to accurately and expeditiously identify the members, to whom contributions should be credited and necessary arrangements should be made to expedite the identification of unidentified members' amounts.</p>

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

References to Laws, Rules and Regulations etc.	Non-compliance	Comments of the Management	Recommendation
<p>(a) Shop and Office Employees Act No. 19 of 1954</p>	<p>Although one and a half times of the average wage per hour should be paid for one overtime hour in the payment of overtime, the Board had paid overtime by paying one and a half hours for one hour of overtime and by adding a one day's pay when work for 8 hours is completed on Saturdays / Sundays. Accordingly, the</p>	<p>The Board has made rules to grant approval for an employee of the Board to work overtime only for two days per month and to work overtime only on the first and last Saturday of the month. I would like to mention that there is the entitlement of medical leave for 21 days for all the</p>	<p>As an institution operating under the Shops and Office Employees Act, it is required to act in accordance with the provisions of the Act regarding overtime and leave.</p>

overtime cost of the Board during the year under review had been Rs. 13.53 million. Furthermore, the officers of the Board are required to work five and a half days per week and only 21 days of annual leave had been allowed in terms of the Act. However, in contrary to that, the officers of the Board were allowed to take 42 annual leave and to work only for 5 days per week.

statutory institutions of the State except the Private Sector in Sri Lanka under the Shops and Office Employees Act and there is a system of encashing the remaining medical leave annually in most of the institutions.

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| <p>(b) Letter of the Minister of Finance and Planning bearing No. PE/IN/ETF/Gen dated 10 November 2014</p> | <p>Although the Board had agreed to provide housing loans under the scheme of providing housing loans to the staff of the Board implemented jointly with the State Mortgage and Investment Bank at an interest rate of 4.2 percent, the Board had granted housing loan for the staff up to Rs.02 million at an interest rate of 4 percent during the year under review.</p> | <p>A new Agreement has been entered into with the Bank for the provision of housing loans with effect from 21 May 2021. In issuing loans in terms of the Agreement, 4.2 percent of interest would be charged for the first Rs. 2 million and 7 percent of interest would be charged for the remaining Rs. 1 million.</p> | <p>Interest should be charged for housing loans as per the consent of the Ministry of Finance.</p> |
| <p>(c) Section 9.14.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003</p>                    | <p>The Financial and Administrative Procedures Manuals of the Board currently in operation had not been submitted to the General Treasury and the approval of the General Treasury had not been obtained for the Manuals.</p>   | <p>An internally formulated financial procedure is being used to facilitate the accomplishment of the operational activities. The approval of the Board of Directors has been granted for the financial and administrative procedures Manuals of the Board and it has</p>  | <p>Action should be taken to obtain the approval of the General Treasury.</p>                      |

been scheduled to update the manuals and to submit them for the approval of the General Treasury in the future.

<p>(d) Public Enterprises Circular No. 95 dated 14 June 1994 and Public Finance Circular No. PF/PE 5 dated 11 January 2000</p>	<p>Although additional allowances, incentives and other types of financial benefits should not be paid to the employees and to the members of the Board of Directors without the proper approval of the Treasury, the Board had paid a total of Rs.137.90 million comprised of Rs. 11.34 million as food allowances during the year under review and Rs. 25.02 million as allowances for the remaining days of leave and Rs. 91.06 million as the reimbursement of medical expenses and Rs. 10.48 million as the reimbursement of the interest of the housing loan had been paid to the staff without the proper approval of the General Treasury.</p>	<p>The food allowance paid to the staff of the Board, the payment for the remaining 14 days of leave and reimbursement of medical expenses are the benefits given on the approval of the Board. Approval has been obtained for all these allowances under the Incentive Grant Heads by the letter of the Ministry of Finance and Planning bearing No. PE/IN/ETF/Gen dated 10 November 2014. We would like to mention that any other new allowances have not been introduced to the staff after the relevant date and the existing incentive scheme is being implemented.</p>	<p>The approval of the General Treasury should be obtained for all types of allowances as per the provisions of the Circulars.</p>
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**1.7 Receivable and Payable Accounts**  
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**1.7.1 Receivables**  
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<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
<p>A sum of Rs. 9.39 million, further recoverable from debenture interest receivable from Elkaduwa Plantation Company and outstanding for a number of</p>	<p>Several letters informing to pay the arrears have been sent to the Elkaduwa Plantation Company. The last letter has been sent on 12 July 2021. They say over the telephone that the Company has faced financial encumbrances owing to Covid pandemic. Since the money</p>	<p>Follow up activities should be done.</p>

years had not yet been involved in this transaction is a non-payment recovered even by 31 July 2021. of the interest, it is very unlikely to recover the amounts at once even by taking legal action.

## 1.8 Monetary Management

Audit Observation	Comments of the Management	Recommendation
<p>According to the Agreement entered with the Bank for the Staff Housing Loan Scheme, which is being implemented jointly with the State Mortgage and Investment Bank, the principal and interest recovered from the employees are to be remitted to the Board once in every three months. However, the audit observed that the bank adds and show the balance to the deposit account at the end of the financial year in contrary to that. As a result, it was observed that the Board would not receive any return for the year in respect of cash and interest collected during the year and the money could not be used for any other source of investment. Accordingly, any benefit had not been received from Rs. 24.47 million, the loan repayments for the year 2020 and Rs. 6.15 million, charging of interest.</p>	<p>Although the State Mortgage and Investment Bank has been informed of this matter from time to time, the loan repayment has not been remitted to the Board once in every three months. Arrangements have been made to make regular loan repayments once in every three months as per the new Agreement, which had been effective from 21 May 2021.</p>	<p>Action should be taken in accordance with the Agreement.</p>

## 2. Financial Review

### 2.1 Financial Results

According to the consolidated financial statements submitted, the operating result of the Group for the year under review was a profit of Rs. 28,017 million and the operating result of the Board was a profit of Rs. 28,007 million and corresponding profits of the Group and the Board for the preceding year were Rs. 25,149 million and Rs. 25,411 Million respectively. Accordingly, the financial result of the Group and the Board had been improvements amounting to Rs. 2,868 million and Rs. 2,596 million respectively. The increase in the interest income of the Board by Rs. 1,843 million during the year under review was the main contributor for the improvement of the above financial results.

### 3. Operational Review

#### 3.1 Management inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) As per amendments made by Section 20 (1) of the Employees' Trust Fund Board Act No. 46 of 1980 and Section 7 of the Employees' Trust Fund Board (Amendment) Act No. 47 of 1988, the Board had been allowed to register self-employed persons. However, only 42,694 self-employed persons or 1.55 per cent, out of 2,746,711 self-employed persons recorded in Sri Lanka, had been registered with the Fund by 31 December 2020 and 5,308 out of that were active members. Although a separate Division has been set up within the Board to promote this sector specified by the Employees' Trust Fund Board Act and strategies have been outlined in the Action Plan, the number newly registered in the year 2020 was only 481.	One thousand six hundred and fourteen (1614) new members had been recruited as at 31 December 2019, under the Innovation Programme introduced in the year 2019. Although plans had been put forward for the year 2020 under that innovation programme, it could not be implemented with the prevailing Corona pandemic.	A systematic programme should be formulated and implemented for the registration of self-employed persons.
(b) Action had not been taken to settle a total of Rs. 44.32 million comprised of Rs. 17.47 million, unclaimed death benefits, which have been continuously increasing since 1995 and Rs.26.85 Million as retained benefits existing from the year 2001 by identifying the relevant members even by 31 December in the year under review.	The current practice that is being followed is to pay only the shares of those, who have submitted documents, while retaining the shares of the claimants, who are not presenting themselves as a whole and at the same time, in instances where there are several claimants for getting benefits after the death of the members and some members, who do not submit sufficient information.	It is the responsibility of the Management to separately identify the unsettled and unclaimed death benefits and the retained benefits and to formulate a suitable programme to settle such benefits.
(c) The Board had paid an amount of Rs. 18.15 million for leave remaining in the year 2019 and Rs. 25.02 million had also been spent in the year 2020, where methods of	I would like to mention that the payment for medical leave saved by the employees is a system that was introduced about 30 years ago and it is a	When spending from the Members' Fund, which consists of members' contributions, well-



working at home had been introduced due to the prevailed pandemic situation. Problems in relation to fairness arise here.

measure taken to further reduce the amount of leave taken by the employees.

managed and well-planned action should be taken.

- (d) An amendment to the contribution had not been made within 10 years after the monthly contribution charged from one person for the member, spouse and each dependent for the medical assistance scheme implemented for the member of the Board was amended by the Administration and Human Resources Circular bearing No. 2011/10 as Rs.30. However, the total reimbursement expenses of the medical bills for the year 2020 was Rs. 92.57 million and the membership contribution for that was only Rs.1.51 million or 1.6 percent. Accordingly, the Board has to bear the balance amount of Rs. 91.06 million or 98.4 percent. Although it has been stated that “unemployed and unmarried children, who depend on the employees” are eligible to receive benefits under this scheme according to the Circular No.2006/25 dated 31/08/2006 issued by the Administration and Human Resources Division of the Board, weaknesses such as not fixing a maximum age limit for children, there has been no system to check whether the children are working or not, there has been no system to check the marital status of children, etc and weaknesses in internal control system such as not checking the condition since a special statement in relation to bill has not been included in the computer system although it was stated that bill up to a maximum of Rs.5000 could be reimbursed once in every two years when obtaining special

Necessary steps will be taken to increase the contribution in the future.

The maximum age of unemployed and unmarried children, who depend on an employee has recently been decided as 25 years. When medical assistance payments are made for children over 21 years of age, substantiation that they are not employed and not married is done by using Grama Niladhari Certificates/ certificates of Higher Educational Institutions etc.

Action would be taken in the future to update the computer system to reimburse up to Rs.5,000 once in every two years in the provision of special equipment.

When spending from the members’ fund, which consists of members’ contributions, well-managed and well-planned action should be taken.

equipment under outpatient treatment were observed.

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| (e) | According to the Incorporation Act, the Chief Executive Officer of the Board is the Chairman of the Board. However, it was recommended at the meeting of the Committee on Public Enterprises held on 26 August 2016, that Section 5 (2) of the Employees' Trust Fund Act, which reads as the Chairman of the Board, who shall be the Chief Executive of the Board, be amended as the Board is a financial institution. However, necessary amendment to the Act had not been made even by the end of the year 2020. | Subsequent to obtaining the approval of the Board of Directors to amend the Act so that the General Manager of the Board can be appointed to the post of Chief Executive Officer of the Board, the relevant proposals have been referred to the Secretary of the Ministry of Finance, which is the Ministry in charge of the Subject in order to obtain the approval of the Cabinet of Ministers. | Relevant approvals should be obtained expeditiously and action should be taken to amend the Act.                     |
| (f) | Although the Board is a leading investor of government securities, it had not obtained the Direct Bidding Facility at securities auctions from the Central Bank of Sri Lanka. Although a directive was given to the Board at the Committee on Public Enterprises held on 26 August 2016 to register as a Primary Dealer with the Central Bank of Sri Lanka, it had not been thus registered even by 31 December 2020.  | The Board has to incur a high cost to obtain and maintain these facilities. Action will be taken to meet the requirements as notified by the Central Bank for obtaining this facility after completing the recruitments of the employees to the Board and after obtaining the approval of the Board of Directors.   | It is the responsibility of the Management to implement the directives given by the Committee on Public Enterprises. |

### 3.2 Operational Inefficiencies

----- <b>Audit Observation</b> -----	----- <b>Comments of the Management</b> -----	----- <b>Recommendation</b> -----
(a) Dividend income had not been received since 2015, 2018 and 2019 for the investment of ordinary shares amounting to Rs.31.41 million, Rs. 30.14 million and Rs. 49.10 million respectively made by 06 listed companies as at 31 December 2020.	Receiving dividends or not receiving dividends by a Company from its investment of shares depends on the performance of those companies. It is also influenced by internal and external factors. Accordingly, As a result of the Covid 19 epidemic in the country by 2020, many companies were unable to carry	The investment portfolio should be managed in a way that the members get higher returns.

out their day-to-day operations properly and were unable to declare dividends.

- (b) The Market value of the investments made by the Board in 12 listed companies in the year 2015 was Rs. 902.71 million and the Board had not focused its attention on minimizing capital losses as those shares had not been offered for trading at the stock market since 2015. The market value of those shares had dropped up to Rs. 553.10 million as at 31 December 2020.
- Since these companies are also leading companies registered in the stock market, it is anticipated to make a profit when their market price is higher than the actual cost. All these investments of the Companies are within the long-term investment portfolio.
- The investment portfolio should be managed in a way that the members get higher returns.
- (c) The Board had invested in three unit trust funds and Namal Vardhana Fund out of those funds had a balance of 450,000 units by the year 2020. Dividends were not received for the year 2020 as this is a growth fund and therefore, dividend payments are not mandatory. Although the market value of the units of Namal Vardhana Fund has increased in 2020, it was observed in the examination of the financial statements that the Fund had incurred a financial loss in the years 2019 and 2020. Further, a risk in this investment is observed by the decrease in net assets attributable to unit holders by the reduction in Rs. 703 million, the net asset value in the year 2017 up to Rs.350 million in the year 2020.
- About 55% of the investment in Namal Vardhana Fund out of unit trust investments was gradually sold. The remaining 450,000 units are expected to be sold with capital gains when market conditions are favourable.
- The investment portfolio should be managed in a way that the members get higher returns.
- (d) The Board provides temporary registration numbers to employers, who register only with the Employees' Trust Fund Board without obtaining the membership of the Employees' Provident Fund and register such employers as 'Dummy' employers. Contributions received from such Dummy employers are
- Since 2017, the Department of Labour has been in the process of exchanging monthly registered information with the Employees Provident Fund, and based on that information, 'Dummy' numbers are being transferred to permanent employer numbers. There are
- It is the responsibility of the Management to implement a suitable programme to transfer dummy numbers to permanent employer numbers.

maintained in temporary accounts called 'X'. Accordingly, the balance in 'X' Accounts (AX to XX) as at 31 December 2020, without being credited to the personal accounts of the respective members, was Rs. 317,699,475. Contributions maintained in those account could not be credited to the members' personal accounts as an appropriate programme had not been formulated to register the "Dummy" employers as actual employers of the Board.

occasions, when permanent employer numbers are obtained by the regional offices of this Board during the institutional inspections and when information is provided to us after employers are registered with the Employees' Provident Fund and in such occasions, contributions paid under "Dummy" numbers are constantly transferred to permanent employer numbers.