

# ANNUAL REPORT

— 2013 —



EMPLOYEES' TRUST FUND BOARD

## EMPLOYEES' TRUST FUND BOARD

Annual Report 2013

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### Layout and Design



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## **EMPLOYEES' TRUST FUND BOARD**

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### **ANNUAL REPORT 2013**

Employees' Trust Fund Board

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# Corporate Profile

The Employees' Trust Fund was established on 1st March 1981 under the provisions of ETF Act No. 46 of 1980. The Fund is administrated by the Employees' Trust Fund Board and at present the ETF Board is functioning under the Ministry of Policy Planning, Economic Affairs, Child, Youth and Cultural Affairs. The provisions of the Act shall apply to every state & private sector undertaking belonging to any class or category of state or private sector undertaking as is specified in an order made by the Hon. Minister and published in the Gazette. Self-employed persons and migrant workers also could contribute to the Fund on their own and obtain membership. At present the active membership of the fund is approximately 2.2 Million and covered by 72,145 employers. The value of the members fund was about Rs. 174 Billion as at 31st December 2013. To decentralize the ETFB activities and to provide a better service to its members the ETFB introduced a Branch Network in 1995.

## The Objectives of The Board

- a) to promote employee ownership, employee welfare, economic democracy through participation in financing and investment;
- (b) to promote the employee participation in management through the acquisition of equity interest in enterprises;
- c) to provide for non-contributory benefit to employees on retirement; and
- d) to do all such other acts or things as may be necessary for, the objectives specified in paragraphs (a), (b) and (c) above.

## BOARD OF DIRECTORS

*The Board of Directors of the Employees' Trust Fund as at the end of 2013 was as follows:*

**Mr. K M A Godawatte** Chairman/CEO  
Appointed by the Minister of Finance

**Mr. G Tissakuttiarachchi** Working Director  
Appointed by the Hon. Minister of Finance

**Mr. P A S Panditharatne** Director  
Appointed by the Hon. Minister of Finance

**Mr. U S Abeyratne** Director  
Appointed by the Hon. Minister of Finance

**Mrs. D L U Peiris** January to April, 2013  
Director  
Treasury Representative

**Mr. A Kumarasiri** May to November 2013  
Director  
Treasury Representative

**Mrs. G L D Dahanayake** Director  
Trade Ministry Representative

**Mr. C L K P Jayasuriya** Director Representative  
Employers' Federation of Ceylon

**Mrs. Deepa Weerasooriya** Board Secretary

**Mr. Ranjith Hettiarachchi** Director  
Trade Union Representative

*There were no other changes in the Board of Directors during 2013*

## SENIOR MANAGEMENT

*As at the end of 2013 the Senior Managerial positions of Employees' Trust Fund Board were as follows:*

**Mr. K M A Godawatte** Chairman/CEO

**Mr. G Tissakuttiarachchi** Working Director

**Mr. J M S B Udugama**  
Acting Additional General Manager  
(*Mr. M C H Gunaratne left in November, 2013*)

## DEPUTY GENERAL MANAGERS

**Mrs. R N Gnanasekera** (*Investment*)

**Mr. J M S B Udugama** (*Collection & Employer Relations*)

**Mr. W S Dissanayake** (*Member Services*)

**Mr. L H Nihal** (*Administration & Human Resources*)

**Mr. K S Weliwita** (*Internal Audit*)

**Mr. N W Wimalaweera** (*Finance*)

## ASSISTANT GENERAL MANAGERS

**Mr. C Mallikarachchi** (*Member Accounts*)

**Mr. H M Seneviratne** (*Member Services*)

**Mr. W Sooriyarachchi** (*Enforcement*) - Region i

**Mr. A J M S Jayasundara** (*Enforcement*) - Region ii

**Mr. M S Dissanayake** (*Enforcement / Self Employment*)

**Mr. M.A.K. Aluthgamage** (*Finance*) Acting

# Senior Management



**Mrs. R. N. Gnanasekara**  
Deputy General Manager  
(Investments)

The Deputy General Manager (Investments) of the Board and she possesses over 34 years experience holding key position in the Board. She is a certified Business Accountant of the Institute of Chartered Accountants of Sri Lanka and a member of the Associate of Accounting Technicians of Sri Lanka.



**Mr. W.S. Dissanayake**  
Deputy General Manager  
(Member Services)

The Deputy General Manager (Member Services) and qualified in the Licentiate Examination of the Institute of Chartered Accountants of Sri Lanka. He possesses Postgraduate Diploma in Business and Financial Administration and Executive Diploma in Business and Financial Administration conducted by the Institute of Chartered Accountants of Sri Lanka. He is a Member of certified Business Accountant (CBA) of the Institute of Chartered Accountants of Sri Lanka and Senior Member of the Association of Accounting Technicians of Sri Lanka. He was a former Chief Accountant in National Water Supply and Drainage Board and Former Member of Director Board in Expressway Transport Company (Pvt) Ltd



**Mr. L.H. Nihal**  
Deputy General Manager  
(A & HR)

The Deputy General Manager (A & HR) of the Board from 2009 and possessed Bsc (Business Administration) Hons. from University of Sri Jayawardenpura and Diploma in HRM from NIBM certificate in Branch Banking, Corporate Member of IPM – SL, professional member of AHRP – SL, IPMA-CP- Alexandria. Has more than 29 years experience in HRM and Administrative in Factory Environment, Banks and Service Oriented Organizations.



**Mr. K.S. Welivita**

Deputy General Manager  
(Internal Audit)

The Deputy General Manager (Internal Audit) of the Board and is a Associate Member of the Institute of Chartered Accountant of Sri Lanka. He joined the Board in 2010 and posses over 26 experience in the private and Public Sector Accounting & Auditing experience.



**Mr. N.W. Wimalaweera**

Deputy General Manager  
(Finance)

The Deputy General Manager (Finance) of the Board and he holds Bachelor of Commerce (Accountancy Special) Degree with 2nd Class Upper Division pass from University of Sri Jayawardenapura. He is an Associate Member (ACA) of the Institute of Chartered Accountants of Sri Lanka. The Finance, Equity and Debt Investment, Information Technology and Procurement Sections of the Board are under his purview.



**Mr. C. Mallikarachchi**

Assistant General Manager  
(Member Accounts)

The Assistant General Manager (Member Accounts) of the Board. He possesses Bsc(Physical Science) Degree from the University of Sri Jayawardenapura and Post Graduate Diploma in Decentralized Planning for Rural Development in Hyderabad, India in 1995.

# Senior Management



**Mr. H.M. Seneviratne**

Assistant  
General Manager  
(Member Services)

The Assistant General Manager (Member Services) of the ETF Board and holds Diploma in Business Management from National Institute of Business Management (NIBM). Joined the ETF Board in the year 1981 and one of the Senior Managers of ETF Board.



**Mr. W. Sooriarachchi**

Assistant General Manager  
(Enforcement)

The Assistant General Manager (Enforcement) Zone I of the Board and is a Bachelor of Arts from University of Sri Jayawardenapura.



**Mr. A.J.M.S. Jayasundara**

Assistant General Manager  
Enforcement (Zone II)

The Assistant General Manager Enforcement (Zone II) of Employees Trust Fund Board and having Bachelor of Commerce (Special) Degree from University of Sri Jayawardanapura, Post Graduate of Diploma in Management From University of Peradeniya and Master of Business Administration From University of Wayamba. I Joined to the Board Service in 1999 as a Regional Manager.



**Mr. M.S. Dissanayake**  
Assistant General Manager  
(Self & Migrant Workers)

The Assistant General Manager (Self & Migrant Workers) of Employees' Trust Fund Board and holds a Diploma in Business Management from National Institute of Business Management. Certificate holder of Office Management in Sri Lanka Institute of Development Administration. He joined the ETF Board in the year of 1995 as Enforcement Officer and currently he holds office as an Asst. General Manager (Enforcement & Self Employment).



**Mr. M.A.K. Aluthgamange**  
Assistant General Manager  
(Finance)

The Assistant General Manager (Finance) of the Board and he holds Bachelor of Commerce (Special) Degree from University of Sri Jayawardenapura. He is a member of the Institute of Management of Sri Lanka, Association of Accounting Technicians of Sri Lanka and Institute of Credit Management of Sri Lanka. He joined ETF Board in 1999 and possesses over 25 years experience in the fields of Finance, Auditing and Investment in Public and Private Sector Institutions.



EMPLOYEES' TRUST FUND BOARD



## Our **VISION**

A Dynamic and Viable Premier Trust to enhance Quality of life and standard of living of members



## Our **MISSION**

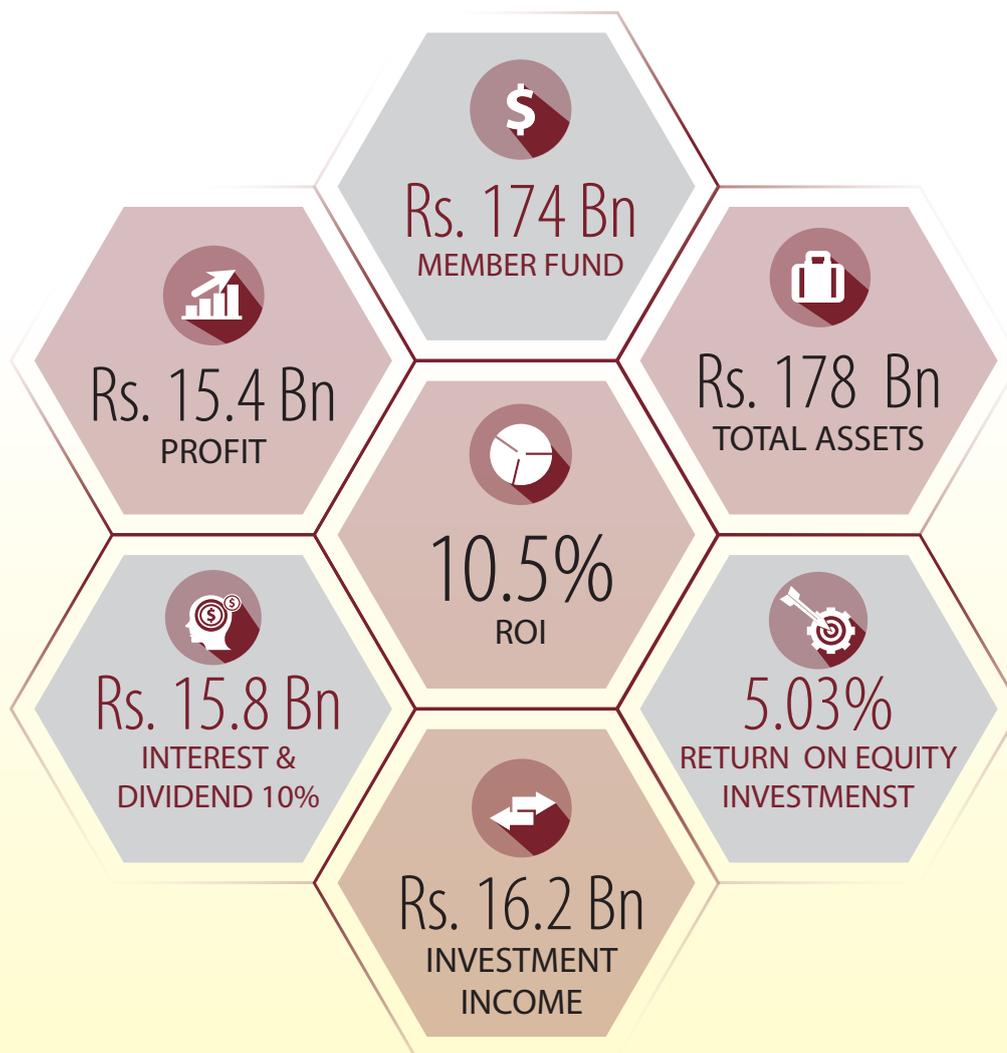
"To enable members to prosper, through policies, systems and processes with accountability to stakeholders, emphasizing excellence in customer care and service to fulfill expectations of the society"

## Corporate **VALUES**

- Creative, Innovative and committed Staff
- People friendly Working Environment
- Supportive Policies and Processes
- Excellent Systems and Procedures
- Sound Finance and
- Delighted Customers



# Financial Highlights 2013





## Financial Review

The ETFB, which accounted for about 1.8 percent of the assets of the Financial Sector, witnessed an increase in its assets base with increased net contribution.

Investment Income grew by Rs. 3.0 billion to Rs.16.2 billion in 2013 when compared to Rs.13.2 billion in 2012. Profit before tax increase to Rs.15.2 billion from Rs.12.3 billion in 2012.

The ETFB had a total asset value of Rs.178 billion as at end of December 2013, and has about 10.0 million accounts, of which, about 2.2 million are active. The ETFB had 72,145 employers contributing to the fund as at 31st December 2013. Total Contribution increased to Rs.14.4 billion in 2013 from Rs.12.7 billion in 2012 while refunds made to members increased to Rs. 9.6 billion in 2013 from Rs. 8.6 billion in 2012.

The net contribution increased by 16 percent to Rs.4.8 billion during the year 2013. Total Assets of the ETFB increase by 12.88 percent to Rs.178.5 billion as at end of December 2013. The members fund in the ETFB increased to Rs.174 billion in 2013 from 154 billion in 2012.

# MILESTONES

from 1981 To 2013

Death Benefit Scheme (Rs.50,000/=)

1986



1989

Permanent Disability Scheme (Rs.200,000/=)  
Death Benefit Scheme

Financial Assistance for Heart Surgery (Rs.150,000/=)  
Death Benefit Scheme  
Permanent Disability Scheme

1991



1992

Reimbursement of Intra-ocular lens (Rs. 18,000/=)  
Death Benefit Scheme  
Permanent Disability Scheme  
Financial Assistance for Heart Surgery



1994

**Year 5 Scholarship (Rs.15,000/= - 7,000 Scholarships)**

- Death Benefit Scheme
- Permanent Disability Scheme
- Financial Assistance for Heart Surgery
- Reimbursement of Intra-ocular lens

**"Shramasuwa Rekawarana" Hospitalization Scheme (Rs.25,000/= per year)**

- Death Benefit Scheme
- Permanent Disability Scheme
- Financial Assistance for Heart Surgery
- Reimbursement of Intra-ocular lens
- Year 5 Scholarship

1997



2002

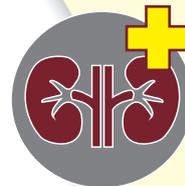
**"Viyana" Housing Loan Scheme**

- Death Benefit Scheme
- Permanent Disability Scheme
- Financial Assistance for Heart Surgery
- Reimbursement of Intra-ocular lens
- Year 5 Scholarship
- "Shramasuwa Rekawarana" Hospitalization Scheme

**Financial Assistance for Kidney Transplant Surgery (Rs.150,000/=)**

- Death Benefit Scheme
- Permanent Disability Scheme
- Financial Assistance for Heart Surgery
- Reimbursement of Intra-ocular lens
- Year 5 Scholarship
- "Shramasuwa Rekawarana" Hospitalization Scheme
- "Viyana" Housing Loan scheme

2006



2010

**Year 5 Scholarship (Rs.15,000/=) - (ETF members who had to terminate employment due to permanent disability)**

**Financial Grant for GCE (A/L) Students - (Rs.12,000/=)**

- Death Benefit Scheme
- Permanent Disability Scheme
- Financial Assistance for Heart Surgery
- Reimbursement of Intra-ocular lens
- Year 5 Scholarship
- "Shramasuwa Rekawarana" Hospitalization Scheme
- "Viyana" Housing Loan Scheme
- Financial Assistant from Kidney Transplant Surgery

# Organization Review

**The Employees' Trust Fund Board (ETFB) at present has a conventional organization structure geared to play the role of a Trustee and a Fund Manager and it is the intention of the Management to drive the Organization to be a more vibrant financial organization in the future. The Act does not specify about the organization structure. However, under section 5, it is stated that the Board may formulate rules for the conduct of its operations.**

The Employees' Trust Fund was established by the Act No. 46 of 1980 Commenced operations in March 1981.

The Employees' Trust Fund Board (ETFB) at present has a conventional organization structure geared to play the role of a Trustee and a Fund Manager and it is the intention of the Management to drive the Organization to be a more vibrant financial organization in the future. The Act does not specify about the organization structure. However, under section 5, it is stated that the Board may formulate rules for the conduct of its operations.

The overall responsibility of the Management for the activities of the Fund lies with its Board of Directors. The Board comprises of nine members of which four are appointed by the relevant Minister and one member each nominated by the Ministers in charge of the subjects of Finance and Trade, One member nominated by the Employers Federation of Ceylon and two members by Trade Unions having more than 100,000 members each.

The Chairman of the Board is selected at the discretion of the Minister in charge and he is also the Chief Executive Officer (CEO) of the Trust Fund as provided by the Act.

The ETFB was initially structured as a centralized organization, mainly due to the

fact that the majority of Employers were concentrated in the Western Province. After completion of restructuring programme of Regional Office network with the opening of Regional Offices and District Offices in most potential areas, a rapid development took place in the Enforcement and Legal activities. Subsequent to this most of Member Services activities such as claims acceptance, claims payments, member awareness programs etc. were decentralized.

The functional areas of ETFB can be broadly divided into Operations and Support Services. The operational areas are identified as Collection & Employer Relations, Member Services and Investments. The Administration and Human Resources, Finance, IT and Internal Audit functions have been recognized as support services.

As specified by the Act, the Chairman is empowered to perform duties as Chief Executive Officer (CEO) of the organization. The General Manager and Additional General Manager will function under the direct supervision of CEO. Each functional area is headed by a Deputy General Manager (DGM). The position of Working Director been established to assist Chairman/ CEO.

Accordingly, a comprehensive organization structure has been developed to ensure the smooth functioning of the organization.



# Corporate Governance

Philosophy of Corporate Governance is institutionalized at all levels in ETF Board a strong set of corporate values, a written procedure and policies and a Board who lead by example.

The Board of Directors of ETF Board is committed and takes responsibility to maintain the highest standards of Corporate Governance. The Board corporate governance practices ensures that the Board delivers promised value to all its stakeholders. The Corporate Governance philosophy of the Board practiced to the focusing in compliance with the following:

1. ETF Act No. 46 of 1980
2. Public Enterprises Guideline for good governance by the Department of Public Enterprises
3. The Code of Best Practice on Corporate Governance by the Department of Public Enterprises
4. Sri Lanka Accounting and Auditing Standard Monitoring Board Act.
5. Procedure Manual and Policies of the Board

## The Board

The Company is headed by an effective Board who are responsible in the stewardship of the enterprise on behalf of the Government and its stakeholders. Brief profiles of the Directors are outlined in Page Nos. 08 to 11

## Board Composition

**The Board comprises of Nine Directors including:**

- Four members nominated by the Minister
- One member nominated by the Minister in charge of the subject of Finance
- One member nominated by the Minister in charge of the subject of Trade
- One member nominated by the Employer Federation of Ceylon; and
- Two members nominated by the Minister in consultation with the executive of every Trade Union having more than 100,000 members.

The Corporate Governance practices are initiated at all levels in Employees' Trust Fund Board through its Vision, Mission, and Corporate Values, Corporate Goals and Objectives and by written procedure

and policies in Financial Administration and IOR, Investments, Procurements etc.

## Role of the Board of Directors

The Board of Directors is responsible to ensure that the ETF Board is conducted its affairs efficiently and effectively in line with Government Policies. This is achieved whilst protecting resources, maintaining proper accounts, ensuring that accurate reports are maintained and all statutory and other regulatory requirements relating to management are complied with.

The Board ensures the strategic direction of the Enterprises are in place and lead the Company for the achievement of strategic goals. The Board regularly oversee that an effective system of internal controls and risk management is in place, management functions of the Company are effectively operating Resources and assets are utilized effectively. The Board assesses the performance of the GM and the Senior Management Staff annually and provides sufficient reporting's to stakeholders on financial aspects and disclosures necessary such other on a regular basis. The responsibility of appointing the Audit and Management Committee and Investment Committee rests with the Board. The Board ensures that all the Board proceedings are in conformity with relevant statues, guidelines, circulars ect. by the Government while avoiding any conflict of interest. The Board also seek to ensure that good governance framework is in place to promote transparency, fairness and accountability within the entity.

## Appointment to the Board

Members of the Board and the Chairman of the Board are appointed as stipulated in the Act.

The Duties, rights and responsibilities of Board Members are specified in a letter of appointment signed by the appointing authority and accepted by the Board Members.

## Chairman

The Chairman is supposed to provide clear and distinct leadership to the Board. The Chairman roles as the important link in the entire governance structure and lead the enterprise in the right direction as the Chief Executive Officer. The chairman ensures the prevalence of Corporate Governance, equal treatment for all directors, a clear division of responsibilities and facilitates balance of power and authority. He chairs all the Board Meetings ensuring that proper proceedings are followed at the meeting. He plays a supervisory role rendering maximum input in his specialized areas of knowledge while refraining from engaging in

operational activities. He also encourages all directors to pay a proactive role in managing the enterprise.

## Board Secretary

All members of the Board have access to the advice and services of the professionally qualified Corporate Secretary who is responsible to the Board for advising the Board on compliance with Board procedures, the law and relevant rules and regulations, and for ensuring that reliable and relevant information is provided to the Board in a timely manner. The Secretary ensures that procedures governing Board Meetings are followed and effective functioning of the Board while circulating Board Papers timely. He provides guidance on the responsibilities, rules and regulations impacting the operations of the Board and advice and assist all Board Members.

## General Manager and the Senior Management.

The responsibility for the Management of the operations of the Enterprise lies with the General Manager and the Senior Management. They are responsible for the effective implementation of decisions taken by the Board of Director's. The General Manager and the Senior Management team provide information and necessary clarifications to the Board to enable well considered decision. They formulate operational plans and budgets and maintain systems, procedures and controls towards effective management of the enterprise while achieving the Board Objectives and Goals

## Financial Reporting.

Board is responsible for the preparation of Annual Financial Statements including true and fair view of its position and performance annually. The preparation and presentation of Financial Statements are in line with the Sri Lanka Financial Reporting Standards. Full disclosure and transparency is enforced within the enterprise to provide the Board of Directors, the General Manager and Senior Management with timely and reliable information required by them to fulfill their responsibilities effectively.

## Annual Audit

The Annual Audit of the Board is conducted by the Auditor General.

## Board Committees

Certain functions of the Board have been delegated to Board Committees.



The total staff of the Board is around 900 and most of whom are young and resourceful which is helpful to effectively manage the Board's activities. It is our earnest hope to serve the members with great vigor in the coming years.

## New Chairman's Message

Employees' Trust Fund Board (ETF) is one of the two premier social security schemes that provides employees, primarily with, defined, non-contributory old age income security in the private sector and the state enterprise sector. Since its inception in 1981, it has grown into a scheme that extends social security to its members in respect of number of contingencies in addition to old-age benefits, such as survivor benefits, occupational injuries and diseases, disability etc. ETF allows members to withdraw the balance of their individual accounts once in five years when employment is changes, which is akin to an unemployment benefit. It has a stated purpose of promoting stock ownership amongst the employees and has broader investment criteria.

The ETF also extends a range of welfare benefits to its members including insurance coverage in case of death and disability; financial assistance for critical illnesses, financial assistance to children of members who have successfully completed year five scholarship and GCE (Advanced Level) examinations, and housing loans for members to construct their own houses.

One of the unique features of the scheme is that it is opened to self-employed and migrant workers, on a voluntary basis. Despite its potential to extend social security to these large segments of the labour force, so far the number of persons avail from this scheme is marginal.

As at 31st December 2013 the fund has recorded a membership of 2.2 million workers employed by 72,145 employers, and the value of the Fund has risen to Rs.174 billion. The Fund was able to make remarkable progress in the areas of collection of contributions, surcharges on delayed remittances, income from investments, and earned a net profit of Rs.14,913 million after taxes, during 2013. In respect of the same period the Fund was able to declare an interest cum dividend of 10 percent, which was a substantially higher return for the members, given the interest rates prevalent during the same period.

The ETF has a staff of around 900 employees. It is their commitment and focus that enabled the substantial progress. Finally, on behalf of the Board, I would like to thank all employees at the head office and employees in all 17 branch offices throughout the country for their tremendous efforts, passion and resilience in delivering results.

**Mahinda Madihahewa**  
**Chairman/CEO**  
**Employees' Trust Fund Board**

# Report of The Board of Directors for the year 2013

**The Board of Directors of the Employees' Trust Fund Board takes pleasure in presenting to all its members and employers the Annual Report and audited Financial Statements for the year 2013.**

**The Employees' Trust Fund Board which is functioning under the Ministry of Finance & Planning was established under ETF Act No.46 of 1980 and commenced its operations on 1st March, 1981. The Board has by now completed 32 years of service to all members and employers.**

## Main Achievements during the year

The Board recorded considerable progress and had many significant achievements during the year 2013. Some achievements are highlighted below.

1. The total Contributions from employers for the year was Rs. 14.4 Billion which was an increase of Rs. 1.7 Billion than the previous year.
2. The total Investment income was Rs.16.2 Billion during the year compared to Rs.13.2 Billion in 2012 showing an increase of Rs. 3 Billion while the value of the investment portfolio increased from Rs.150 Billion to 168 Billion at the end of the year.
3. The Board earned a net profit of Rs. 15.4 Billion compared to Rs. 11.9 Billion in the previous year while Rs. 15.8 Billion was distributed to members at the end of the year as interest and dividends.
4. The total net asset value of the Fund exceeded Rs.178 Billion at the end of the year.
5. The income on equities during the year was Rs. 482 Million compared to Rs. 333 Million during 2012. The increase was due to marginal improvement of the Share market activities in 2013.
6. With the increase of the investment income earned during the year 2013 we were able to declare a total rate of 10% to our members at the end of the year as interest and dividend for 2013. **(See Graphs 1 & 2)** This was an attractive rate compared to the rates offered by Banks/Financial Institutions to its customers. A further Rs.657 Million is available in the Dividend Equalization Reserve.
7. The operating expenses of the Fund which was 5.7% in 2012 decreased to 5.28% during the year 2013. The Board has maintained the operating expenditure level as expected. **(See Graph 3)**
8. The Regional office network continued to function effectively during the year with special attention focused on recovering of outstanding contributions and surcharges and legal dues. The decentralization of claims payment in the Gampaha, Kandy and Matara Offices also continued successfully.
9. In addition, processing of Claims commenced from the Kurunegala Office in 2012 while action is been taken to commence this operation from Badulla in 2014.
10. The new Regional office established in Jaffna in November 2010 showed encouraging progress during 2013 with increased contributions appr. 8 Million per month by employers due to more awareness.
11. The updating process of all Member accounts were carried out successfully during the year and succeeded in completing 98% of the backlog during the year. The complicated cases are being cleared at present. Arrangements had been made to send the Annual Member statement (AMS) to all active Members up to year 2012.
12. Enrolment of Self employed members continued to be given high priority during the year. The enrolment programme of Self-employed persons who have started small-scale business projects after obtaining loan facilities from Samurdhi Banks was estimated to enroll about 10,000 members through the Samurdhi Bank network. Further, constant contact was made with Dairy farmers, Pre-School teachers, Construction industry technicians, Artists, Three Wheeler Drivers for more enrolment, totaling 33,000 Members and total contribution received for 2013 is Rs. 26 Million.
13. Human Resources development continued to be a major priority during the year such as exposing of all levels of staff for training programmes /seminars/workshops to upgrade their skills, attitudes and knowledge which were continued during the year. Trade Union members were also given the opportunity for training in the related fields.
14. The Industrial relations between the Management and Trade Unions continued to be cordial and healthy while such relationships greatly assisted in the progress made by the Board in all functional areas during the year.

## Employer Contributions and Members Fund

The Contribution/Collection Section is responsible for collection of employer contributions and effective/timely banking of such contributions. Similarly the Member Accounts Section is responsible for updating individual member accounts and issuing of Annual Member Statements to members.

In order to facilitate an effective and speedy service to employers who contribute to the Fund, Employers have been categorized as larger category and smaller category employers. Larger category employers have more than 15 employees while smaller category employers have less than 15 employees.

A total of 2040 new employers commenced contributing to the Fund during the year and thus the total number of employers contributing to the Fund at the end of the year 2013 had increased to 72,234. Similarly the total contributions received from the employers in respect of their employees during 2013 was Rs. 14.4 Billion compared to Rs. 12.7 Billion in 2012. **(See Graph 4)** Further, the value of the Member's Fund increased from Rs. 153.6 Billion to Rs.174.3 Billion at the end of the year under review. **(See Graph 5)**

## Member Benefits and Welfare Benefits

The Claims Section is responsible for the acceptance of refund and benefit claims and speedily processing and paying of such claims to the members.

Additionally the Member Services Section is responsible for providing information to the members regarding their rights and benefits from the Fund. It also provides awareness to Employers of their responsibility in making timely remittances of contributions on behalf of their members. Such work is carried out frequently by organizing various awareness programs at the requests of institutions, trade unions, professional associations and also by educating the public at various forums.

During 2013, 152,866 refund claims were processed and the total amount paid was Rs. 9.7 Billion. Comparatively during 2012



# Principal Activities

The Principal activities of the Board continued as follows during 2013.

146,876 Claims were processed and the value was Rs 8.7 Billion. During the year the average amount paid per claim increased to Rs 63,480 from Rs 59,126/- in the previous year. **(See Graph 6)** The outflow on claim payments showed a marginal increase during the year. During 2013, 11,122 special benefit claims were processed and the total amount paid was Rs 248 Million. Comparatively during 2012, 10,880 claims were processed and the value was Rs 232 Million. Rs 83 Million was deposited in People's Bank in year 2013 on behalf of the 5,520 children of members who had passed the Year Five Scholarship Examination. **(See Graph 7)**

Rs.18 Million had been paid to 1,467 Children of ETF members who had passed the GCE (A/L) Examination in year 2013, as assistance for their higher education.

Rs.105 Million was released in year 2013 to the NDB Bank on behalf of Viyana Housing Loan scheme to facilitate 82 members to obtain housing loans.

The 10 benefit schemes operated by the Board for active members are as follows:

	<b>Life Insurance</b>	1. Automatic Life Insurance Benefits: Maximum Rs. 50,000/-
	<b>Heart Surgery</b>	2. Financial Assistance for Heart Surgery: Maximum Rs 150,000/-
	<b>Kidney Transplants</b>	3. Financial Assistance for Kidney Transplants: Maximum Rs 150,000/-
	<b>Permanent Disability</b>	4. Total & Permanent Disability Benefits: Maximum Rs 200,000/-
	<b>Intra-Ocular Lens</b>	5. Reimbursements of cost of Intra-Ocular Lens: Rs 18,000/- for both eyes
	<b>Year 5 Scholarships</b>	6. Financial awards for Year Five Scholarship holders (Children of ETF Members) - 7000 Scholarships of Rs 15,000/- each annually.
	<b>"Shramasuwa Rekawarana" Hospitalization</b>	7. "Shramasuwa Rekawarana" Hospitalization Scheme: Rs 25,000/- per year Maximum Rs 50,000/- for life time.
	<b>"Viyana" Housing Loan</b>	8. "Viyana" Housing Loan Scheme with concessionary rates of interest.
	<b>Year 5 Scholarships (Children of Permanent Disability members)</b>	9. Year Five Scholarships for children of ETF members who had to terminate employment due to permanent disability.
	<b>Financial grant for children of ETF members who passed GCE (A/L)</b>	10. Financial grant for children of ETF members who passed GCE (A/L) - 5,000 Scholarships of Rs 12,000/- each annually.

- The convenience of the members who require money urgently the express claim service is continuing.

## Maintenance of Member Accounts

The Member Accounts Section is responsible for updating individual member accounts and issuing of Annual Member Statements to the active members.

The total number of active and inactive accounts of the fund as at the end of the year was approximately 11 Million. The fund maintains member accounts for all the active and inactive members.

10,502,242 member accounts were updated up to year 2012 as at 31-12-2013 and it is approximately 95% of the total estimated number of member accounts. Out of these accounts 8,378,930 were inactive while 2,123,312 member accounts were active and on whose behalf Annual Member Statements were issued to the respective employers during the year.

## Investments

The Investments portfolio grew from Rs. 150 Billion to Rs.168 Billion in 2013 which an increase of 12% over the previous year.

During the year 2013 the Board strictly followed the guidelines of the investments policy and obtained a reasonable return whilst protecting the capital.

A major portion of the portfolio amounting to 149 Billion (88.7%) was invested in Government Securities and Rs. 6 Billion (3.69%) invested in Government Guaranteed Fixed Income Instruments whilst Rs. 7.5 Billion (4.5%) was invested in equities. **(See Graph 8)**

The Board has earned a profit of Rs.482 Million on shares by way of dividends and capital gains as compared to Rs. 324 Million in the previous year. The increase was due to the marginal improvement in the Stock market activities in 2013.

As stated earlier, during the year 2013, ETF yielded an investment income of Rs.16.2 Billion as against Rs.13.2 Billion in 2012 which was an increase of Rs. 3 Billion.

The Board is also looking to invest in rated commercial papers and debentures as alternative sources of Investments to maintain the income targets and ensure a reasonable dividend to the members at the end of 2014. Further it is examining the possibility of trading in debentures in the secondary market for more attractive gains.

Attention was also focused on training the staff in Investment Analysis and Research by exposing them to relevant courses conducted by Securities Exchange Commission (SEC) / Colombo Stock Exchange (CSE).

The ETF was summoned before the Committee on Public Enterprises (COPE) in Parliament in 8th August, 2013 and all activities were examined. The COPE Members were enlightened about the ETF Investment Policy and mode of Investment Operations.

The Investment Committee headed by the Treasury representative on the Board met regularly to evaluate Investment proposals and options and make recommendation to the Board of Directors.

## Collection & Employer Relations

Collection of Contributions, Surcharges, Legal and Enforcement activities and administration & monitoring of the Regional office network is carried out by this Division. In order to enhance the monthly contributions/surcharges by employers and to serve the ETF members especially in remote areas the Board continued to take several initiatives during the year under review.

The total number of Regional offices increased to 17. The Management continued to strengthen the operations of these Regional offices with the deployment of competent Graduate Trainees for Enforcement activities.

A scheme was introduced in the year 2008 to facilitate the employers to make monthly contributions using the Electronic payment system through Bank of Ceylon and Commercial Bank. This is a more convenient method which reduces paper work to a great extent and we have noted that more employers used this method in 2013 to make contribution payments. Further the Board is pursuing continuous efforts to encourage more employers use this scheme by conducting awareness programmes among employers' at various forums. At present about 1000 employers are paying Contributions through the Internet. Further with the Sampath Bank, People's Bank and Hatton National Bank has commenced the ETF Online payment system through their respective e-payment system in 2013.

Instructions have been issued to all Regional offices to make every attempt to increase the compliance rate during 2014. Further monthly progress review meetings were held with all Regional managers during the year.

## Administration/Human Resources

During the year under review, there were 26 new staff recruitments to the various Divisions of the Board while 22 numbers of persons left the services of the Board due to retirements, resignations, terminations etc. In addition 104 numbers of staff members were promoted to higher Grades. By end of the year the total employees of the Board had reached 914.

As in the previous year, the staff at all levels were granted opportunities to undergo training in their relevant fields in order to improve productivity, performance and attitudes which helped to immensely contribute for the remarkable progress made by the Board during the year. Special attention was given to train the relevant staff in the IT Division while equal emphasis was given for the improvement of language skills. The Senior Management was also exposed to relevant Training programs to enhance their capabilities.

## Finance

The Finance Division is responsible for overall financial functions of the organization.

Monitoring and recording of all revenue and expenditure of the Board, all staff and suppliers' payments and preparation of Monthly and Annual Accounts, progress Reports Annual Budget, Annual Dividend determination and other Management Information, continued to be performed by this Division.

In addition to the above, coordinating and preparation of the Board's Corporate Plan, Action plan, Annual Report, Observations on Audit Queries, Financial information to external agencies and other financial documents are handled by this Division.

## Internal Audit

The Internal Audit Division is responsible for maintaining the internal control process of the activities of the Board while ensuring that the operations lead to enhanced financial and operations discipline. The Audit Committee coordinated by the Internal Audit Division met quarterly under the Chairmanship of the Board Member, who is a Senior Chartered Accountant and discussed any shortcomings within the operations systems and monitored rectification action. Also the Internal Audit Division largely focused attention on monitoring the release of claims/benefits of the members which represents a significant percentage of the outflow of the

Fund. Further, the Internal Audit team visited selected Regional Offices during 2013 and reported on all major operations. The Internal Audit Division also played a major role in the modification of software modules by the IT Division by providing advice on specific issues from the Audit angle. The Internal audit plan for the year under review was also carried out successfully. Special investigations were also performed by this Division.

## Technology

The outstanding issues associated with Member Administration Software System (MASS) were resolved using in-house developers. By this process, substantial costs were saved by the Board which would have otherwise been incurred to obtain the support of external vendors.

Payment of claims continued to be made from Gampaha, Kandy and Matara Regional offices with the support of IT System while access to the Main computer system provided to Regional Offices through IPVPN Technology continued to operate successfully.

Necessary technical support was provided by IT Division for clearing the backlog of data and processing of Annual Member Statements.

The facility for employers to make ETF contributions over the Internet through Bank of Ceylon, Commercial Bank was intensified with more employers gradually using this facility to make ETF payments. Further, it was observed that larger category employers were sending their Form II return details through magnetic media.

The IT division also provided facilities for the members to obtain their member balances at several exhibitions and events in and out of Colombo while the Intranet facility was further developed to facilitate the functions among the divisions and regional offices.

The ETF website was continuously updated to provide latest information on-line. Further the Board will also continue to upgrade our systems and technology to provide more facilities on-line and to be in line with internationally accepted practices.

Further constant contact was maintained with govt. IT agency the ICTA for advice and guidance on IT related matters.

## Amendments to the ETF Act

The ETF Act was not amended since 1993 and the Management decided that certain amendments

to the Act were necessary in keeping with the current requirements and developments. A special sub committee consisting of Board Members and Senior Officials studied the required amendments to the Act and made recommendations to the Board of Directors. The proposed amendments were approved by the Board and sent to the Secretary, Ministry of Finance & Planning. Concurrently these amendments were also referred to the National Labour Advisory Committee (NLAC) for study and comments. These proposals are being finalized at NLAC. Thereafter, this has been sent to the Ministry of Finance in August 2013 to be forwarded to the Cabinet for the approval.

### **Building for the ETF Head Office**

From the inception, the Head Office of the ETF always had been located in rented out buildings. At the moment some Divisions of the Head Office are located in 05 rented out buildings along Nawala Road and Kirula Road. It was a long felt need of the ETF to have all the Divisions of the Head Office under one roof to facilitate smooth management.

In 2009 the Cabinet of Ministers decided to construct a new Office complex in the land belonging to the Labour Department in Narahenpita for the use of EPF / ETF and all other social security organizations in Sri Lanka. The foundation for the construction of this building was laid in December.2009. The Ministry of Labour is in-charge of the construction work. It has been agreed to allocate 14 floors of this building to ETF. Currently the construction of the building had been awarded to a construction company and the construction was commenced. It is expected to conclude in 2016. The ETF will enter into an agreement with the Ministry of Labour under the condominium Law for the ownership of the space. The payment for the spaces allocated to ETF will be made by ETF after obtaining required approval and after the signing of the agreement.

### **Special Projects**

1. In early 2011, the Management decided to construct a Holiday Bungalow and a dormitory for the use of ETF members at the premises owned by the Board in Anuradhapura. The construction for both commenced in October, 2011 and was completed in November, 2013. The landscaping and finishing touches should be completed. It has been decided to demolish the old office building and shift the office to new building constructed adjoining the Holiday Bungalow which is earlier planning to use as the dormitory.
2. The ETF Sports Club also constructed a Holiday Home at Palatupana Yala in 2012 where the ETF staff members and families could make use of same as a welfare measure and commenced operation in 2013.

### **Conclusion**

The Board of Directors greatly appreciates the support and guidance given by His Excellency the President who is also the Hon. Minister of Finance & Planning, Senior Minister and Hon: Deputy Minister of Finance & Planning, the Secretary to the Ministry of Finance and Planning and all his officials. We also wish to convey our sincere thanks to all staff for working as a team in achieving a remarkable progress in all operational activities during the year of 2013. The success of any institution is, no doubt, linked intimately to the performance of its' staff, and thus, we are proud to have a very committed, dedicated and energetic workforce. Our appreciations extend to all trade unions for their unstinted co-operation and support extended to us. The dedication, loyalty, commitment and team work displayed by all the employees during the year in building a solid foundation and an organization which is totally committed towards serving its members, employers and the general public is commendable.



# Financial Statement

2013



**EMPLOYEES' TRUST FUND BOARD**

Statement of Comprehensive Income

For the year Ended 31<sup>st</sup> December

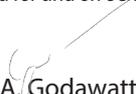
	Notes	2013 (Rs:000)	2012 (Rs:000)
<b>Income</b>			
Interest Income	1	15,803,801	13,324,820
Dividend Income	2	318,660	208,701
Net Gain /(Loss) on Financial Assets at Fair Value through Profit /Loss	3	68,178	(304,378)
Other Income	4	286,047	258,892
<b>Total Income</b>		<b>16,476,686</b>	<b>13,488,035</b>
<b>Expense</b>			
Personal Expenses	5.1	720,022	632,244
Administrative Expenses	5.2	125,307	110,702
Financial Expenses	5.3	2,657	2,485
Member Expenses	5.4	314,372	289,908
Depreciation of Property and Equipment		18,863	20,878
Interest Paid on Current Year		128,958	118,220
<b>Total Operating Expenses</b>		<b>1,310,178</b>	<b>1,174,438</b>
Income Tax Expenses	6	253,404	165,649
<b>Profit for the Year</b>		<b>14,913,103</b>	<b>12,147,948</b>
Adjustment to the Current Year Profit		454,624	-
<b>Adjusted Profit for the Year</b>		<b>15,367,727</b>	<b>12,147,948</b>
<b>OTHER COMPREHENSIVE INCOME STATEMENT</b>			
<b>Income for the Year</b>		<b>15,367,727</b>	<b>12,147,948</b>
Net Gain /(Loss) on Held to Maturity Financial Assets		-	(269,065)
Actuarial Gain/(Loss)		-	(1,276)
<b>Total Comprehensive Income for the Year Net of Tax before appropriation</b>		<b>15,367,727</b>	<b>11,877,608</b>
<b>Profit Available for appropriation</b>		<b>15,367,727</b>	<b>11,877,608</b>
Retained Profit B/F		163,943	252,829
Transfer from Dividend Equalization Reserve Fund		343,000	2,000,000
		<b>15,874,670</b>	<b>14,130,436</b>
Less: Proposed Apportionment - Interest 3.0%		4,752,333	4,189,948
Dividend 7.0%		11,088,778	9,776,545
<b>Retained Profit C/F</b>		<b>33,559</b>	<b>163,943</b>

Certified as correct,


N.W. Wimalaweera  
Deputy General Manager

J.M.S.B. Udugama  
Additional General Manager  
(Attending to the Duties)

\* These financial statement approved and signed for and on behalf of the Board


  
K.M.A. Godawatte  
Chairman/CEO

	Notes	2013 (Rs:000)	2012 (Rs:000)
<b>ASSETS</b>			
Cash and Cash Equivalent		1,043,164	414,831
Other Financial Assets Held-for-Trading	7	7,550,428	6,871,632
Financial Investments - Available-for-Sale	8	485,835	485,835
Financial Investments - Held-to-Maturity	9	153,137,676	135,407,687
Financial Investments - Loans & Receivables	10	7,418,615	7,234,690
Other Assets	11	5,478,971	4,451,654
Property and Equipment	12.1	183,067	188,241
Intangible Assets	12.2	514	717
Investment Property	13	3,200,000	3,200,000
<b>Total Assets</b>		<b>178,498,270</b>	<b>158,255,287</b>
<b>Liability and Equity</b>			
Current Tax Liabilities		122,359	109,797
Other Liabilities	14	235,917	156,894
Provisions	15	41,482	37,497
<b>Total Liabilities</b>		<b>399,758</b>	<b>304,188</b>
Total Equity	16	178,098,513	157,951,099
<b>Total Liabilities and Equity</b>		<b>178,498,270</b>	<b>158,255,287</b>

The accounting policies and notes herein are an integral part of these financial statement.

Certified as correct,



N.W. Wimalaweera  
Deputy General Manager



J.M.S.B. Udugama  
Additional General Manager  
(Attending to the Duties)

\* These financial statement approved and signed for and on behalf of the Board



K.M.A. Godawatte  
Chairman/CEO

	<b>2014</b>	<b>2013</b>
	<b>(Rs:000)</b>	<b>(Rs:000)</b>
<b>Operating Activities</b>		
Proceeds from Sale of Financial Instrument Designated at Fair Value through Profit and Loss	1,476,934	1,029,949
Maturities of Financial Instrument Held to Maturity	102,544,388	100,176,684
Maturities of Financial Instrument Loan & Receivables	102,547	63,716
Payment for Purchase for Financial Instruments Designated at Fair Value through Profit and Loss	(2,175,810)	(1,854,541)
Payment for Purchase of Held to Maturity Financial Instruments	(116,989,125)	(113,182,589)
Loan Granted for Acquire Loan & Receivable Financial Instrument	(380,732)	(60,764)
Interest Received	12,042,295	10,778,336
Dividend Received	292,858	208,636
Other Income Received	261,640	239,975
Operational Expenses Paid	(1,195,262)	(725,599)
Financial Expenses Paid	(2,420)	(2,485)
Member Expenses Paid	(166,054)	(281,209)
Income Tax Paid	345,729	(1,414)
Interest Paid	(129,808)	(118,332)
Year 5 Scholarship Payment/Refund	(84,303)	(75,844)
Higher Education Schoarship Payment	(15,720)	(3,096)
<b>Net Cash Flows from Operating Activities</b>	<b>(4,072,842)</b>	<b>(3,808,577)</b>
<b>Investing Activities</b>		
Purchase of Property and Equipment	(14,284)	(52,274)
Proceeds from Sale of Property and Equipment	-	2,920
<b>Net Cash Flows from/(used in) Investing Activities</b>	<b>(14,284)</b>	<b>(49,354)</b>
<b>Financing Activities</b>		
Contribution Received	14,253,247	12,582,955
Refunds	(9,570,013)	(8,565,217)
<b>Net Cash Flows used in Financing Activities</b>	<b>4,683,233</b>	<b>4,017,738</b>
<b>Net Increase in Cash and Cash Equivalentents</b>	<b>596,108</b>	<b>159,807</b>
Cash and Cash Equivalentents at 01st January 2013	414,831	255,023
<b>Cash and Cash Equivalentents at 31st December 2013</b>	<b>1,010,938</b>	<b>414,831</b>

# EMPLOYEES' TRUST FUND BOARD

Statement of Changes in Equity  
For the year Ended 31<sup>st</sup> December

	Member Fund			Retained Profit	Dividend Equalization Reserve Fund	Revaluation Reserve	Total
	Contribution	Interest	Dividend				
<b>Balance as at 01.01.2012</b>		135,486,301		252,829	3,000,000	3,155,730	141,894,860
Prior Year Adjustments	(739)	(33)	(79)				(850)
Contribution Received	12,745,270						12,745,270
Refund of Contribution, Interest & Dividend	(8,565,788)						(8,565,788)
Revaluation Surplus/(Impairment) of Property Net Profit for the Year				11,877,608			11,877,608
Net Profit Attributable as Dividend & Interest to the Members		4,189,948	9,776,545				13,966,493
Transfer from/to Retained Earnings				2,000,000	(2,000,000)		-
Dividend & Interest				(13,966,493)			(13,966,493)
<b>Balance as at 31.12.2012</b>	<b>4,178,743</b>	<b>4,189,915</b>	<b>9,776,466.27</b>	<b>163,943</b>	<b>1,000,000</b>	<b>3,155,730</b>	<b>157,951,099</b>
<b>Balance as at 01.01.2013</b>		153,631,426		163,943	1,000,000	3,155,730	157,951,099
Prior Year Adjustment		(50,731)		454,624			403,894
Contribution Received	14,404,117						14,404,117
Refund of Contribution	(9,573,700)						(9,573,700)
Interest on Member Fund Balance 3.0%		4,752,333		(4,752,333)			-
Dividend 7.0%			11,088,778	(11,088,778)			-
Transfer from Dividend Equalization Reserve Fund				343,000	(343,000)		-
Accumulated Profit for the Year				14,913,103			14,913,103
<b>Balance as at 31.12.2013</b>	<b>4,830,417</b>	<b>4,752,333</b>	<b>11,088,778</b>	<b>33,559</b>	<b>657,000</b>	<b>3,155,730</b>	<b>178,098,513</b>

Notes	2013 (Rs:000)	2012 (Rs:000)
<b>1 Interest Income</b>		
<b>1.1 Financial Investments Available for Sale</b>		
<b>1.2 Financial Investments Held to Maturity</b>		
Interest on Fixed Deposit	815,288	64,295
Interest From Debentures	126,968	123,354
Yield on Treasury Bond	12,847,398	11,150,769
Margin on Treasury Bill	799,227	793,230
Interest on Repurchase Agreements	102,635	101,319
Interest on Money Market	1,696	1,425
Interest on Custodial A/C	10,769	-
Interest on Bonds - Power Project	401,235	400,102
Income on Commercial Papers	12,636	6,433
<b>Sub Total</b>	<b>15,117,852</b>	<b>12,640,927</b>
<b>1.3 Financial Investments on Loans and Receivables</b>		
Interest on Rupee Loans	587,000	587,000
Interest on Viyana Housing Loan	87,249	86,790
Interest on Distress Loans (Special loan)	501	477
Interest on Vehicle Loans	2,911	2,421
Interest on Special Distress Loans	4,550	4,250
Interest on Special Festival Loans	136	132
Interest on Computer Loan	10	10
Interest on Staff Housing Loan - SMIB	3,540	2,780
Interest on Sport Club Loan	51	33
<b>Sub Total</b>	<b>685,949</b>	<b>683,893</b>
<b>Total Interest Income</b>	<b>15,803,801</b>	<b>13,324,820</b>
<b>2 Dividend Income</b>		
<b>Investment Held for Trading</b>		
Dividends on Shares - Quoted	284,610	187,059
Dividends on Units - Quoted	8,948	8,948
<b>Investments Available for Sale</b>		
Dividend on Shares - Unquoted	25,103	12,694
<b>Total Dividend Income</b>	<b>318,660</b>	<b>208,701</b>

Notes	2013 (Rs:000)	2012 (Rs:000)
<b>3 Net Gain / (Loss) on Financial Assets at Fair Value through Profit or Loss</b>		
<b>Financial Assets Designated at Fair Value Through Profit or Loss</b>		
Profit on Sale of Quoted Shares	171,962	124,368
Fair Value Adjustment of Units	25,345	165,900
Fair Value Adjustment of Shares	(129,129)	(594,646)
<b>Sub Total</b>	<b>68,178</b>	<b>(304,378)</b>
<b>4 Other Income</b>		
Property Income - Lease Rent	21,075	20,482
Profit on Sale of Property ,Plant and Equipment	16	453
Surcharges	226,935	205,128
Income on Express Claims	17,100	13,381
Staff Loan Income	18,393	18,463
Write Back of under/over Paid Claim	-	1
Sundry Income	2,528	984
<b>Total Other Income</b>	<b>286,047</b>	<b>258,892</b>
<b>5.1 Personal Expenses</b>		
<b>Staff Costs (Including Director) Comprise:</b>		
<b>5.1.1 Wages and Salaries</b>		
Salaries	279,752	245,143
Directors' Fees	503	530
Cost of Living Allowance	70,345	62,209
Overtime	18,000	16,986
Holiday Pay	11,225	10,171
<b>Sub Total</b>	<b>379,824</b>	<b>335,039</b>
<b>5.1.2 Short-Term Monetary and Non-Monetary Benefits</b>		
Recruitment, Training & Development	1,729	997
Staff Welfare	19,122	16,848
Incentive	83,529	81,067
Encashment of Leave	11,659	9,045
Bonus	58,848	48,728
Reimbursement of Medical Expenses	49,043	36,952
Staff Loan Cost	18,393	18,463
Interest on Housing Loans	15,242	12,721
<b>Sub Total</b>	<b>257,565</b>	<b>224,821</b>

Notes	2013 (Rs:000)	2012 (Rs:000)
<b>5.1.3 Defined Benefit Plans</b>		
Interest Cost	9,595	8,723
Current Service Cost	4,966	4,514
<b>Sub Total</b>	<b>14,561</b>	<b>13,237</b>
<b>5.1.4 Other Long Term Employee Benefits</b>		
E.P.F. Board's Contribution	54,990	48,198
E.T.F. Board's Contribution	10,998	9,639
<b>Sub Total</b>	<b>65,988</b>	<b>57,837</b>
<b>5.1.5 Other Staff Welfare Expenses</b>		
P.A.Y.E. Tax	2,084	1,311
<b>Sub Total</b>	<b>2,084</b>	<b>1,311</b>
<b>Total Personal Expenses</b>	<b>720,022</b>	<b>632,244</b>
<b>Key Management Personal Compensation</b>		
Directors' Fees	503	530
<b>Sub Total</b>	<b>503</b>	<b>530</b>
<b>5.2 Administrative Expenses</b>		
Building Rent	34,773	32,391
Rates	541	1,428
Electricity Charges	17,240	15,787
Telephone Charges	7,321	6,502
Water Charges	1,603	1,557
Consultancy Fees	1,669	1,717
Audit Fees	467	800
Security Charges	6,357	4,356
Legal Fees	1,470	907
Secretarial Expenses	300	300
Postage & Telegrams - Admin.	2,327	2,144
Travelling & Subsistence - Admin.	1,065	1,370
Printing & Stationery - Admin.	1,641	1,108
Media & Publicity - Admin.	286	162
IT Expenses - Admin.	1,154	922
Advertisement & Press Notices	1,887	2,028
Vehicle Insurance & License Fees	2,694	2,478
Newspapers & Periodicals	639	527
Donations	806	213
Other Insurance	39	44
Office Upkeep & Requirements	679	505

Notes	2013	2012
	(Rs:000)	(Rs:000)
Stamp Duty	2	1
Miscellaneous Expenses	1,917	1,877
Vehicle Repairs & Maintenance	14,763	9,978
Fuel Charges	15,253	14,376
Maintenance of Building	6,403	5,449
Maintenance of Machine & Equipments	2,009	1,772
<b>Sub Total</b>	<b>125,307</b>	<b>110,702</b>
<b>5.3 Financial Expenses</b>		
Custodial Fee	235	235
Bank Charges	2,419	2,246
Release of Write Back Claims	4	3
<b>Sub Total</b>	<b>2,657</b>	<b>2,485</b>
<b>Total Administrative Expenses</b>	<b>847,986</b>	<b>745,431</b>
<b>5.4 Member Expenses</b>		
<b>5.4.1 Member Benefits</b>		
Death Benefits Scheme	49,248	49,247
Permanent Disablement Scheme	5,823	5,681
I.O.L. Implanting Scheme	4,958	3,928
Sramasuwa Rekawarana Scheme	20,099	20,760
Heart Surgery Scheme	65,790	53,070
Kidney Transplant Scheme	2,105	1,120
Year 5 Scholarship Scheme	82,830	74,925
Higher Education Scholarship Scheme	17,604	23,604
<b>Sub Total</b>	<b>248,457</b>	<b>232,335</b>
<b>5.4.2 Member Services</b>		
Postage & Telegrams - Memb.	21,095	19,508
Printing & Stationery - Memb.	14,772	9,974
Computer Stationery	3,894	4,044
Employees Awareness Scheme	394	235
Travelling & Subsistance - Memb.	5,277	5,105
Media & Publicity - Memb.	727	741
Medical Consultat. for Members	22	21
Scholarship Expenses	1,579	851
Deyatakirula Exhib. & CSR Project	3,419	3,124
<b>Sub Total</b>	<b>51,178</b>	<b>43,602</b>

## EMPLOYEES' TRUST FUND BOARD

Notes to the Statement of Comprehensive Income Account  
For the year Ended 31<sup>st</sup> December

Notes	2013	2012
	(Rs:000)	(Rs:000)
<b>5.4.3 IT Services</b>		
Maintenance of Hardware	4,444	3,511
Maintenance of Software	308	317
Depreciation - IT	5,871	5,988
Insurance - IT	137	94
Rental on Leased Lines	3,976	4,061
<b>Sub Total</b>	<b>14,736</b>	<b>13,972</b>
<b>Total Member Expenses</b>	<b>314,372</b>	<b>289,908</b>
<b>6 Income Tax</b>		
Net Tax Expenses	253,404	165,649
	<b>253,404</b>	<b>165,649</b>

<b>7 Other Financial Assets Held for Trading</b>		
Quoted Share Investment	7,281,440	8,134,627
Less: Provision for Diminution in Value of Quoted Shares	-	(1,506,639)
Quoted Units	268,989	243,644
	<b>7,550,428</b>	<b>6,871,632</b>
<b>8 Financial Investments Available for Sale</b>		
Unquoted Share Investment	485,835	485,835
Promissory Notes	12,174	12,174
Shares - Delisted & Under Liquidation	29,294	-
Less: Provision for Diminution in Value Shares	(29,294)	-
Impairment on Promissory Notes	(12,174)	(12,174)
	<b>485,835</b>	<b>485,835</b>
<b>9 Financial Investments Held to Maturity</b>		
Treasury Bonds	137,547,313	120,946,400
Treasury Bills	5,656,190	6,660,950
Quoted - Debenture	584,277	165,202
Less: Impairment on Debenture	(7,450)	(7,450)
Fixed Deposits	5,350,200	2,550,200
Repurchase Agreement	720,146	1,327,091
Debentures Unquoted	295,000	675,000
Commercial Papers	-	98,295
Bonds - Power Project	2,992,000	2,992,000
	<b>153,137,676</b>	<b>135,407,687</b>
<b>10 Financial Assets - Loans &amp; Receivables</b>		
Rupee Loans	6,100,000	6,100,000
Housing Finance - N.D.B	790,494	770,881
<b>Staff Loans</b>		
Distress Loan (Special Loan)	14,835	14,738
Special Distress Loan	161,774	111,431
Festival Advance	950	934
Special Festival Loan	925	882
Special Advance	3,653	3,621
Vehicle Loan	117,880	63,377
Computer Loan	118	259
SMIB-Staff Housing Loan	227,986	168,564
Loan -Tsunami Relief	-	2
	<b>7,418,615</b>	<b>7,234,690</b>

Notes	2013 (Rs:000)	2012 (Rs:000)
<b>11 Other Assets</b>		
Accrued Income		
Interest Receivable	4,076,110	3,242,466
Less: Provision against Doubtful Income	(27,866)	(27,866)
	<b>4,048,245</b>	<b>3,214,600</b>
<b>Receivables &amp; Prepayments</b>		
Contribution Receivable	1,271,061	1,118,137
Money Orders Control	3,647	3,786
Postal Franking Machine Imprest	226	167
Sundry Debtors	8,509	2,133
Dues From Ex-employees	610	1,580
Security Deposits	2,983	2,972
Prepayment	13,550	11,889
Pre - Paid Staff Loan Cost	96,076	61,297
Advance Payment	3,683	489
Deposit - Summervill & Co.	21,900	21,900
Medical Advance	30	15
Loan - Sports Club	2,502	1,800
	<b>1,424,777</b>	<b>1,226,165</b>
<b>Tax Recoverable</b>		
Tax Paid in Advance	1,408	3,952
	<b>1,408</b>	<b>3,952</b>
<b>Others including Stocks of Stationery</b>		
Stock of Stationery & Consumable	4,541	6,938
	4,541	6,938
	<b>5,478,971</b>	<b>4,451,654</b>

# EMPLOYEES' TRUST FUND BOARD

Notes to the Statement of Financial Position  
As at 31st December

12.1 Property, Plant and Equipment									
Cost	Land & Buildings	Motor Vehicles	Fixtures and Fittings	Computer Equipment	Furniture & Other Equip.	Computer Software	Total		
<b>Balance at 1st January 2012</b>	28,357	123,701	15,810	127,186	50,387	3,232,004	345,441		
Additions	19,330	19,430	-	6,449	7,064	-	52,273		
Disposals	-	(6,564)	-	-	(613)	-	(7,177)		
Revaluations	-	-	-	-	-	-	-		
<b>Balance at 31st December 2012</b>	<b>47,687</b>	<b>136,567</b>	<b>15,810</b>	<b>133,635</b>	<b>56,838</b>	<b>3,232,004</b>	<b>390,537</b>		
<b>Balance at 1st January 2013</b>	47,687	136,567	15,810	133,635	56,838	3,232,004	390,537		
Additions	3,629	-	-	9,603	6,158	-	19,390		
Disposals	-	-	-	-	(185)	-	(185)		
Revaluations	-	-	-	-	-	-	-		
<b>Balance at 31st December 2013</b>	<b>51,316</b>	<b>136,567</b>	<b>15,810</b>	<b>143,238</b>	<b>62,811</b>	<b>3,232</b>	<b>409,742</b>		

	Land & Buildings	Motor Vehicles	Fixtures and Fittings	Computer Equipment	Furniture & Other Equip.	Computer Software	Total
<b>Accumulated Depreciation</b>							
Balance at 1st January 2012	-	68,339	15,182	68,247	28,700	2,229,713	180,468
Depreciation Charge for the Month	-	15,345	181	7,200	3,855	284,821	26,581
Disposals	-	(4,242)	-	-	(510)	-	(4,752)
<b>Balance at 31st December 2012</b>	-	79,442	15,363	75,447	32,045	<b>2,514,534</b>	<b>202,297</b>
<b>Balance at 1st January 2013</b>							
Depreciation Charge for the Month	-	12,720	128	7,135	4,546	284,821	24,529
Disposals	-	-	-	-	(150)	-	(150)
<b>Balance at 31st December 2013</b>	-	<b>92,162</b>	<b>15,491</b>	<b>82,582</b>	<b>36,441</b>	<b>2,799,355</b>	<b>226,676</b>
<b>Net Book Value</b>							
At 1st January 2012	28,357	55,362	628	58,939	21,687	3,232,004	164,973
At 31st December 2012	47,687	57,125	447	58,188	24,793	3,232,004	188,240
At 31st December 2013	51,317	44,405	319	60,657	26,369	(2,796,123)	183,067

As at 31st December

Notes to the Statement of Financial Position

**EMPLOYEES' TRUST FUND BOARD**

Notes	2013 (Rs:000)	2012 (Rs:000)
<b>12.2 Intangible Assets - Computer Software</b>		
At Beginning of Period	717	1,002
Amortization	(203)	(285)
At End of Period	<b>514</b>	<b>717</b>
<b>13 Investment Property</b>		
At beginning of Period	3,200,000	3,200,000
Change in Fair Value	-	-
At end of Period	<b>3,200,000</b>	<b>3,200,000</b>
<b>14 Other Liabilities</b>		
Defined Benefit Obligation	96,727	90,119
Accounts Payables and Sundry Creditors		
Retained Tax on Claims & Benefits Paid	6,336	3,751
Stamp Duty Payable on Claims	523	451
Unpaid Emoluments	22	22
Stamp Duty Payable on Salaries	87	73
Superintendent of EPF	10,510	9,009
Sundry Creditors	56,028	22,217
Unclaimed Refunds	5,183	5,150
Unpaid Death Benefits	8,598	7,574
E.T.F. Payable	1,262	1,081
P.A.Y.E. Tax	1,432	771
VAT	229	209
N.B.Tax	38	35
Unclaimed Scholarship	2,320	2,367
Returned Benefit	13,969	13,905
Salaries Control	339	-
Salary Deductions Clearance	89	161
<b>Bank Overdraft</b>		
People's Bank C/A-149	32,226	-
	<b>235,917</b>	<b>156,894</b>
<b>14.1 Defined Benefit Obligation</b>		
Opening Defined Benefit Obligation 01 <sup>st</sup> January	90,119	79,297
Interest Cost	9,595	8,723
Current Service Cost	4,966	4,514
Benefit Paid	(7,953)	(3,690)
Actuarial (Gains) / Losses on Obligations	-	1,276
Closing Defined Benefit Obligation 31 <sup>st</sup> December	<b>96,727</b>	<b>90,119</b>

Notes	2013	2012
	(Rs:000)	(Rs:000)
<b>15 Provisions</b>		
Provision for Audit fee	1,500	2,350
Provision for Telephone	159	46
Provision for Water	1	-
Provn. for Employees' Accident Compensation Scheme	2,000	2,000
Provision for Bonus	19	5
Provision for Leave Encashment	10,068	7,847
Provision for Postage	1,662	1,164
Provision for Higher Education Scholarship	25,968	24,084
Provision for Year 5 Scholarship	105	-
	<b>41,482</b>	<b>37,497</b>
<b>16 Equity and Reserves</b>		
Retained Profit B/F	163,943	252,829
Retained Profit Current Period	14,913,103	11,877,608
Prior Year Adjustment	454,624	-
Transfer from Dividend Equalization Reserve Fund	343,000	2,000,000
<b>Profit Available for Distribution</b>	<b>15,874,670</b>	<b>14,130,436</b>
Less: Interest on Member Fund Balance 3.0%	4,752,333	4,189,948
Dividend 7.0%	11,088,778	9,776,545
<b>Retained Profit C/F</b>	<b>33,559</b>	<b>163,943</b>
Member Fund as at 01st January	153,631,426	135,486,301
Less: Contribution & Interest Paid- Previous Year	(50,731)	(850)
	153,580,695	135,485,450
Net Contribution Received During the Year	4,830,417	4,179,482
Add: Interest on Member Fund 3%	4,752,333	4,189,948
Dividend 7%	11,088,778	9,776,545
<b>Member Fund as at 31st December</b>	<b>174,252,223</b>	<b>153,631,426</b>
<b>Reserves</b>		
Dividend Equalization Reserve	657,000	1,000,000
Revaluation Reserve	3,155,730	3,155,730
<b>Equity and Reserves</b>	<b>178,098,513</b>	<b>157,951,099</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Significant Accounting Policies

#### 1.1 Corporate Information

##### 1.1.1 Legal and Domicile Form

Employees' Trust Fund Board (ETF) is a public corporation, established on 1st March 1981 in Colombo, under the provision of ETF Act No.46 of 1980. It was established under the Ministry of Labour and brought under the Ministry of Finance & Planning in 1997.

##### 1.1.2 Principal Activities and Nature of Operations

All public sector employees who are not entitled to government pension scheme and all private sector employees are members of this fund while their employers are required to remit 3% of the gross earning of their employees to the fund, monthly. Apart from managing the fund, ETF Board involves in implementing a range of social and welfare benefits to members during their employment.

##### 1.1.3 Date of Authorization to Issue

The financial statements of ETF Board for the year ended 31st December, 2013 were authorized for issue in accordance with resolution of the board of directors on 26th February 2014.

#### 1.2 Basis of Preparation

The financial statements have been prepared on a historical cost basis except for certain assets and liabilities which are measured at fair value. All values are rounded to the nearest rupee (Rs.), except when otherwise indicated.

#### 1.3 Statement of Compliance

The Financial Statements of ETF Board have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS). The preparation and presentation of these financial statements is in compliance with the Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka.

#### 1.4 Going Concern

The Management of ETF Board has made an assessment of the Board's ability to continue as a going concern and is satisfied that the Board has resources to continue in business for a foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Board's ability to continue as a going concern. Therefore, the financial statements are continued to be prepared on the going concern basis.

#### 1.5 Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

##### 1.5.1 Interest and Similar Income and Expense

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the Effective Interest Rate (EIR). EIR is the rate that exactly discounts estimated future cash payments or receipts through

the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

#### **1.5.2 Dividend Income**

Dividend income is recognized when the entity's right to receive the payment is established.

#### **1.5.3 Other Income**

Other Income is recognized when the entity's right to receive the payment is established except for the interest income on fair value measurement of Staff loans that is amortized over the employees' service period.

#### **1.5.4 Adjustment to the Current Year Profit**

Error correction has not been adjusted in retrospectively since it is impracticable to present comparative information for more periods. The Board restate the opening balance of assets, liabilities and equity for the current period after recovery of such errors.

#### **1.6 Functional and Presentation Currency**

These Financial Statements are presented in Sri Lankan Rupees, which is the Board's functional currency. All Financial Information is presented in Sri Lankan Rupees.

#### **1.7 Financial Instruments – Initial Recognition and Subsequent Measurement**

##### **Date of Recognition**

All financial assets and liabilities are initially recognized on the trade date, i.e., the date that the Board becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

##### **Initial Measurement of Financial Instruments**

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

##### **Financial Assets or Financial Liabilities Held For Trading**

Financial assets or financial liabilities held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognized in income statement. Interest and dividend income or expense is recorded in the income statement according to the terms of the contract, or when the right to the payment has been established. Included in this classification are equities that have been acquired principally for the purpose of selling or repurchasing in the near term.

##### **Financial Assets and Financial Liabilities Designated at Fair Value through Profit or Loss**

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate (EIR), while dividend income is recorded under 'Dividend Income' in the income statement when the right to receive the payment has been established.

#### **Available for sale Financial Investments**

Available for sale investments include debt securities. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealized gains and losses are recognized directly in equity (Other comprehensive income) in the 'Available for sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the income statement in 'Other income'. Interest earned whilst holding available for sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available for sale financial investments are recognized in the income statement as 'Other income' when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the income statement in 'Impairment losses on financial investments' and removed from the 'Available for sale reserve'.

#### **Held to Maturity Financial Investments**

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the company has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the income statement. The losses arising from impairment of such investments are recognized in notes to the income statement.

#### **Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in interest income in the income statement. The losses arising from impairment are recognized in the income statement in other operating expenses. The fair value loss is amortized over the employees service period as an employee cost.

### **Repurchase and Reverse Repurchase Agreements**

Investment in Repurchase Agreement has fixed or determinable payments and fixed maturity and the Board has the positive intent and ability hold to maturity thereby determined to be held to maturity investment. This should be initially measured at fair value including transaction cost if any and subsequently to be measured at amortized cost using effective interest rate.

### **Impairment of Financial Assets**

The ETF Board assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

### **Financial Assets Carried at Amortized Cost**

For financial assets carried at amortized cost (loans and advances to employees and held to maturity investments), the entity first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Board determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of 'Interest income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the entity has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date.

### **Available for Sale Financial Investments**

For available for sale financial investments, the entity assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available for sale, the entity assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current

fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

In the case of equity investments classified as available for trading, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognized in income statement.

### **1.8 Property, Plant and Equipment**

Items of property, plant and equipment are initially recognized at cost. Cost includes purchase price, directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Expenditure incurred on repairs or maintenance of property, plant & equipment in order to restore or maintain future economic benefits expected from originally assessed standard of performance is recognized as an expense in Income statement when incurred.

Provision for depreciation is calculated using the reducing balancing method other than real estates (Investment Property). Freehold land is not depreciated. Depreciation is provided on all other items of property, plant and equipment so as to write off their carrying value less residual value, if any, over their expected useful economic lives. The estimated useful economic life times of the assets are as follows.

Computer Equipment	-	20%
Other Equipment	-	20%
Furniture	-	15%
Motor Vehicles	-	25%
Fixtures & Fittings	-	33.33%

Depreciation of assets begins when it is available for use.

#### **Capital work in progress**

Capital work in progress represents the construction cost of Holiday Bungalow and Office Premises at Anuradhapura that are not ready for their intended use.

### **1.9 Impairment of Non-financial Assets**

The Board assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Board estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell,

an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Board estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

### **1.10 Investment Property**

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the Income Statement in the period in which they arise.

The Board's investment property shall revalue in every three years time to open market value, with changes in the carrying value recognize in the Statement of Comprehensive Income.

Rent receivable is spread on a straight-line basis over the period of the lease. Where an incentive (such as a rent free period) is given to a tenant, the carrying value of the investment property excludes any amount reported as a separate asset as a result of recognising rental income on this basis.

### **1.11 Intangible Assets**

#### **1.11.1 Externally Acquired Intangible Assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment. Whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible assets.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

#### **Computer Software Packages**

Amount incurred in acquisition/upgrading Computer software Packages are recognized as an intangible asset and amortized over 3 years.

## **1.12 Leasehold Properties**

### **1.12.1 Operating Lease**

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Board (an "operating lease"), the total rentals payable under the lease are charged to the Statement of Comprehensive Income on a straight-line basis over the lease term.

## **1.13 Inventories**

Inventories are valued at lower of the cost and net realizable value, after making due allowances for obsolete and slow moving items.

## **1.14 Retirement Benefit Cost**

### **1.14.1 Defined Contribution Plans**

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with respective statutes and regulations. The Board contributes 15% and 3% of gross emoluments of employees to the Employees' Provident Fund and to the Employees' Trust Fund respectively.

### **1.14.2 Defined Benefit Plans – Gratuity**

Provision has been made for retirement gratuities from the first year of service for all employees, in conformity with Sri Lanka Accounting Standards LKAS 19 - Employee Benefits. However, under the payment of Gratuity Act No.12 of 1983, the liability to an employee arises only on completion of five years of continued service. The liability is not externally funded.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The entity's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs are deducted.

The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the entity's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss. The entity recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income.

Key assumptions used in determining the retirement benefit obligations are as follows:

Discount Rate	11%
Salary Increment Rate	2%
Retirement Age	60 Years

**1.15 Taxation**

**1.15.1 Current Taxes**

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

**1.16 Equity**

**1.16.1 Member Fund**

Contribution received and receivable from members net of refunds made to members during the year together with interest and dividends accrued to them are consisted in member fund.

**1.16.2 Dividends**

Dividends are recognized when the fund's right to receive is established.

**1.17 Provisions**

The Board has recognized provisions for liabilities of uncertain timing or amounts. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date, discounted at a pre-tax rate reflecting current market assessments of the time value of money and risks specific to the liability.

**2. Critical Accounting Estimates and Judgments**

The Board makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Estimates and assumptions**

**(a) Valuation of Investment Property**

The entity obtains valuations performed by external valuer in order to determine the fair value of its investment properties. These valuations are based upon assumptions including future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuer also makes reference to market evidence of transaction prices for similar properties.

**(b) Fair Value of Financial Instruments**

The Board determines the fair value of financial instruments that are not quoted, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

**(c) Useful Lives and Residual Values were Appropriate for Property, Plant and Equipment**

The entity tests annually whether, the useful life and residual value estimates were appropriate and in accordance with its accounting policy.

### **3. Financial Instruments - Risk Management**

#### **Risk Management Structure**

The board has a compliance function to access the Board's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies in all areas of business operations.

In common with all other businesses, the Board is exposed to risks that arise from its use of financial instruments. This note describes the Board's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Board's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in notes.

#### **3.1 Credit Risk**

Credit risk is the risk that the Board will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Board manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

#### **3.2 Impairment Assessment**

For accounting purposes, the Board uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment
- Where the Board grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter bankruptcy or other financial reorganization
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans





REPORT OF THE  
**AUDITOR GENERAL**  
AND OBSERVATIONS OF THE BOARD

—2013—

the 1990s, the number of people in the UK who are aged 65 and over has increased from 10.5 million to 13.5 million, and the number of people aged 75 and over has increased from 4.5 million to 6.5 million (Office for National Statistics 2000).

There is a growing awareness of the need to address the needs of older people, and the need to ensure that the health care system is able to meet the needs of older people. The Department of Health (2000) has published a strategy for older people, which sets out the government's commitment to older people and the need to ensure that the health care system is able to meet the needs of older people.

The strategy for older people is based on the following principles: (1) older people should be able to live independently in their own homes; (2) older people should be able to access the services they need; (3) older people should be able to participate in the decisions that affect their lives; (4) older people should be able to live in a safe and secure environment; (5) older people should be able to access the services they need; (6) older people should be able to participate in the decisions that affect their lives; (7) older people should be able to live in a safe and secure environment.

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## **Chairman, Employees' Trust Fund Board**

### **Report of the Auditor General on the Financial Statements of the Employees' Trust Fund Board for the year ended 31 December 2013 in terms of Section 10(7) of the Employees' Trust Fund Act, No. 46 of 1980.**

The audit of financial Statements of the Employees' Trust Fund Board for the year ended 31 December 2013 comprising the financial position as at 31 December 2013 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10(1) of the Employees' Trust Fund Act, No.46 of 1980. My comments and observations which I understand to be published with the Board's Annual Report in terms of Section 10(7) of the Employees' Trust Fund Act, are given 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**

It is my responsibility to express an opinion on these financial statements based on my audit. I conducted my audit in compliance with Sri Lanka Auditing Standards which are in accordance with the International Auditing Standards of audit firms (ISSAI 1000 – 1810). These Standards require that I comply with ethical requirements and plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free from material misstatements.

The 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 judgment, including the assessment of the risks of material misstatement of the financial statements whether occurred 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. The audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Section 10 (1) of the Employees' Trust Fund Act No.46 of 1980 grants power 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.

#### **1.4 Basis for Qualified Opinion**

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

### **2. Financial Statements**

#### **2.1 Qualified Opinion**

In my opinion, except for the effects on the financial statements of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Employees' Trust Fund Board as at 31 December 2013 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

### 2.2.1 Sri Lanka Accounting Standards

The following observations were made.

- (a) An assessment would have been made to identify whether any basic subjective matters exist to impair a financial asset or a group of financial assets at the end of each reporting year and risk assessment also was to be made on each investment in accordance with Sri Lanka Accounting Standards No. 39. But on the contrary a total of Rs.1,635,768,000 constituting of Rs.1,506,639,000 on 1st January 2013 and Rs.129,129,000 on 31st December 2013 was written off against the cost of the shares that were purchased, due to falling prices in the share market.

The Board's Investment Portfolio exists since year 2002 was classified under fair value through profit or loss without proper identification when writing off share prices.

- (b) The Board had not revalued its Fixed Assets amounting to Rs.183,067,000 to ascertain its fair value according to section 34 of Sri Lanka Accounting Standard No. 16, despite their existing assets that were depreciating under the reducing balance method for 25 years and being utilized further.
- (c) The information pertaining to the related parties to the Board of Directors and Management of the Board were not disclosed in the financial statements in compliance with Sri Lanka Accounting Standards No 24.

### 2.2.2 Going Concern

The percentage of annual rate of dividend was maintained constantly as 7 percent from the year 2011 to 2013 except the mandatory 3 percent provided by the Board to its members. Due to non availability of sufficient annual operating surplus required to declare these dividend returns, the required provisions were allocated from dividend equalization reserve and retained profits in the previous years. Rs. 746 million, Rs. 2089 million and Rs.446 million from the years 2011 to 2013 respectively. In addition, as appears in paragraph 2.2.6 Rs.2,596 million of unrealized profits was used to pay the dividends in the year under review. On the basis of this situation, this Fund is appears to be under systematic deterioration.

### 2.2.3 Contributions not credited to Member Accounts

Although the financial statements disclosed Rs.174,252 million as the balance of the Members' Fund account as at 31st. December 2013, the amount actually credited to member accounts was Rs.151,948 million. The amount received but not credited to the member accounts as at 17th June 2014 was Rs.22,304 million. Though Rs. 9,496 million out of this amount had been received during the past period of about 33 years, it had not been credited to the member accounts even as at 17th June 2014. The balance of Rs.12,808 million is the interest amount that should have been credited to member accounts from time to time relevant to the above contributions received. An age analysis of the contributions not credited to the member accounts even as at 31st December 2014 is given below.

<b>Age analysis of Contributions received but not credited to Member Accounts</b>	<b>Contributions still not accounted (Rs Million.)</b>
01 to 05 years	7,553
05 to 10 years	814
10 to 15 years	425
15 to 20 years	231
20 to 25 years	215
Over 25 years	258
<b>Total</b>	<b>9,496</b>

It was observed that the balance not credited to member accounts in the previous year was Rs.4,100 million and it was increased upto Rs.9,496 million during the year under review. This reflects the increasing trend of receiving annual contribution to the member fund but not credited to member accounts year by year.

#### **2.2.4 Accounting Deficiencies**

**The following observations are made.**

- (a) The operating surplus of the year under review was shown in excess of Rs.4,752,333,000 due to the 3% interest amount of Rs.4,752,333,000 has not been accounted as operational expenses even though Trust Fund Act requires to credit 3% or above to the member accounts as interest out of total investment earnings annually.
- (b) The comprehensive income of the year under review was incorrect since amount of Rs.171,962,000 credited to the comprehensive income as capital gains not computed base on cost.
- (c) As investment amounting to Rs.29,293,854 relevant to 02 liquidated companies and 01 delisted company was not shown under financial assets in the Balance Sheet due to such amounts were set off against provisions without taking approvals for written off.
- (d) A total amount of Rs.454,624,000 in connection with tax refund, tax over provision and member accounts adjustments were treated as income for the year instead of adjusting them retrospectively.

#### **2:2:5 Transactions not supported by adequate Authority**

- (a) As per the Section 14 of Employees' Trust Fund Act of 1980, the dividends should be declared from the profit earned by the Investments of the fund. However, it was revealed that an unrealized profit of Rs.2,595,533,063 was utilized to pay members' dividends by using the effective rate of interest, Rs.12,847,398,332 contrary to the rules and regulations in the Act, instead of utilizing the real interest income of Rs.10,251,865,269 that was earned on Rs.137,546,313,369 invested in treasury bonds in the Central Bank of Sri Lanka as of 31st December 2013 in order to pay members' dividends for the year under review.

#### **2.2.6 Lack of Evidence for Audit**

**The following audit evidence were not submitted for the audit.**

- (a) Reports prepared pertaining to cost of share prices for investment of Rs.8,085,181,220 on 109,134,215 shares in the share market as of 1st January 2013 by the Employees' Trust Fund Board.
- (b) Reports of the physical verifications confirming the value of the fixed assets amounting to Rs.409,742,000 as at 31st December 2013.
- (c) The Board's Investment Policy Statement was not subject to the approval of the General Treasury. However the approval of the General Treasury along with the agreement of the relevant minister to write off Rs.1,635,768,000 of investment from the books and sell the shares on loss.

#### **2.3 Accounts Receivable and Payable**

- (a) The Board had not taken necessary steps to resolve an outstanding amount of Rs.31,396,526 of members' money until 31st December of the year under review which includes Rs. 8,597,637 as the unclaimed death benefit which had been continuously increasing from the year 1995, Rs.13,969,151 of retained benefits, Rs.5,182,506 of unclaimed refunds and Rs.3,647,232 of contributions received by money orders from the Postal Department from year 2001.

## 2:4 Non-compliance with Laws, Rules, Regulation and Management Decisions

Following instances of non-compliance with laws, rules, regulations etc. were observed during the course of the audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
a) Circulars and letters from the Department of Management Services	
i) Paragraph No 02 of Letter No DMS/C2/2/42 dated 5th February 2013	New salary steps approved by the Board of Directors had been implemented from 1st May 2013 against the Recruitment and Promotion Procedure approved by the Department of Management Services.
ii) Paragraph No 6 of Letter No DMS/C2/2/42 dated 12th July 2012	Even though the post of Secretary of the Board of Directors was revoked, the contract period of the Secretary of the Board of Directors employed on contract basis was re-extended from October 2012 without the formal approval of the relevant parties against the revocation.
iii) Section 4.3 of Management Service Circular No. 2013/01 (1) of 09th December 2013	The employees of the Board were paid Rs.58,847,962 of bonus in the year under review without the approval of the cabinet of ministers contrary to the circular.
b) Public Enterprises and Public Administration Circulars and minutes of meetings held by public enterprises.	
i) Public Enterprises Circular No. 130 of 18th March 1998, Public Administration Circular No. 26/47 of 19th November 1997 and paragraph 19 of No. 56 minutes of COPE meeting held on 18th October 2011.	Although it had been stated that the employees of Public Corporations and Statutory Boards should not be granted loans on the interest rate of 4.2%, the Board had granted loans to the employees at the aforesaid rate of interest and lower rates in contrary to the circular. The outstanding amount of loan granted on the above rates of interest were Rs. 413,101,257 to be recovered as at 31st December of the year under review.  The Chairman had informed me that the Deputy Secretary to the Treasury had informed him of the approval granted by the Minister of Finance and Planning through a letter dated on 10th November 2014 with due consideration to the difficulties that would be faced by the Employees Trust Fund due to suspending these payments.
ii) Section 8.7 of Public Enterprises Department Circular No. 12 of 06th June 2003.	An amount of Rs. 2,083,969 had been remitted to the Commissioner General of Inland Revenue as PAYE from the Board's fund without recovering from the personal earnings of the officers in employment for the year under review.
iii) Section 8.7 of Public Enterprises Department Circular No. 45 of 2nd October 2007.	The section stating the management's responsibilities on preparing and presentation of accounts was not stated in the financial statements.
iv) Public Finance Circular No. PF/PE 05 of 11th January 2000 and paragraph 16 of minutes of Committee on Public Enterprises meeting held on 18th October 2011.	An amount of Rs. 83,529,063 had been paid as employee incentives during the year under review without the approval of General Treasury and violating the order given by the Committee on Public Enterprises.  The Chairman had informed me that the Deputy Secretary to the Treasury had informed him of the approval granted by the Minister of Finance and Planning with due consideration to the difficulties that would be faced by the Employees Trust Fund due to suspending these payments though a letter dated 10th November 2014.
c) Treasury Circular No. 1024/600/29 CD of 12th December 1963.	The approval of the General Treasury was not obtained for the Board's Financial Procedures Manual implemented since 1999.

### 3. Financial Review

#### 3:1 Financial Results

From operations of the Board for the year under review had resulted a surplus of Rs.15,368 million, and in comparison with its corresponding surplus of Rs.12,148 million for the preceding year, the financial result for the year under review is appears to have increased by Rs.3,220 million. However, when the surplus is compared to the factors stated in this report, 2.2.4 (a) and 2.2.5, the surplus amounting to Rs.15,368 million could have been reduced by Rs.7,348 million or by 48%.

#### 3:2 Analytical Financial Review

Total entitlements of the members of the Fund and the total contributions to these entitlements and the distribution pattern of the cumulative interest during last 05 years are given below.

Year	Total contribution	Cumulative Interest	Members' Entitlement as at 31st December
	Rs. Millions	Rs. Millions	Rs. Millions
2008	44,301	44,568	88,869
2009	49,834	53,223	103,057
2010	56,616	63,236	119,852
2011	64,054	71,432	135,486
2012	72,773	80,858	153,631
2013	82,653	91,599	174,252

As per the above information out of the total entitlements of the members of the fund 47% were contributions while 53% was the cumulative interest by end of year 2013. The relative growth of total entitlements of the year 2013 has increased by 13.42% compared to 2012 whereas, the growth of the contribution was 12.54% during the year.

### 4. Operating Review

#### 4.1 Performance

The following observations were made.

(a) Status of performance at the end of the year 2013 is as shown below.

Description	Actual Number	Number Relating to the Performance of the Fund	Percentages There to %
Employment of Private and Semi Government Sector Employees	3,661,132	2,200,000	60.09%
Employers	252,540	72,145	28.57%
No. of Member Accounts of the Fund (Millions)	10.0	2.2	22%

**Source :- Annual Report 2013- Central Bank of Sri Lanka**

According to the Annual Report 2013 of the Central Bank of Sri Lanka, the Board had not prepared an adequate program to facilitate the reported amount of 2,710,596 self-employed persons in Sri Lanka to enroll to the fund as members as at end of the year 2013.

- (b) The information regarding the scholarship awards implemented during past 6 years by the Employees' Trust Fund Board are shown below.

Year	No. of Active Members Contributed To the Fund	No. of Members who received scholarships on behalf of Students	Cost of Grade 5 Scholarships Rs.	Cost of A.Level Scholarships Rs.	Total Cost of Scholarships Rs.
2008	2,100,000	2,497	26,084,760	-	26,084,760
2009	2,100,000	3,000	46,811,006	-	46,811,006
2010	2,100,000	3,000	45,385,680	-	45,385,680
2011	2,100,000	6,669	74,051,599	23,640,000	97,691,599
2012	2,200,000	6,962	75,775,685	23,604,000	99,379,685
2013	2,200,000	6,982	84,124,844	17,888,234	102,013,078
	2,200,000	29,110	352,233,574	65,132,234	417,365,808

Only a limited number of students amounting to 29,110 were awarded scholarships out of total membership of 2,200,000 of the Fund during the last 6 years. The Board had failed to focus its attention on a formal program for enhancing the education of the children of the under privileged members of the fund and make awareness among them even at the end of the year under review.

- (c) According to the Board the operational statistics such as the total number of memberships, active accounts and number of employers in the Employees' Trust Fund Board as of the end of 31st December 2013 in comparison with the operational data of the Employees' Provident Fund are as follows.

	According to the Employees' Provident Fund	According to the Employees' Trust Fund	Percentage of change %
Total number of member accounts	14,987,000	10,000,000	67
No. of active accounts making contributions in the present	2,350,000	2,200,000	94
No. of employers	70,392	72,145	102
Percentage of benefits paid in 2013 With interest	11.0	10.0	91

**Source :- Annual Report 2013 – Central Bank of Sri Lanka**

Even though the Board had an opportunity to enroll more members than Employees Provident Fund, the Board had not achieved such target at end of year under review.

#### 4.2 Investments and Investment Income

The following observations were made in this connection.

- (a) Interest receivables for the year and prior periods on investments amounting to Rs. 27,854,580 made in debentures and promissory notes in 02 companies were not received even as at the end of 31st December of the year under review.
- (b) Whereas Rs. 7,450,259 invested in listed debentures in 4 companies in the year 2006 were to be realized on 9th December 2007, the money has not received even as of 31st December 2013.
- (c) The Board had incurred a loss of Rs.22,334,639 through selling shares of 6 companies less than the cost in the year under review.
- (d) There had been an uncertainty exist in recovering invested capital of Rs.2,076,800 to purchase 188,800 shares in a computer company as the auditors of that company is in the

opinion that material uncertainty exist for going concern due to deterioration of liquidity of the company, incurring of Rs.478 million loss in year 2012/2013 etc.

- (e) A description of investments made in the share market, income generated by the investment and rates of income for the years 2011, 2012 and 2013 are given as follows.

Year	No. of Companies	No. of Shares	Invested Amount As at 01st Jan Rs.	Investment Income Received Rs.	Rate of Income %
2011	130	78,211,481	5,204,377,279	703,052,274	13.5
2012	107	101,999,123	7,713,939,116	324,179,030	4.2
2013	88	109,134,215	8,085,181,220	34,987,432	5.38

These funds could have been invested in treasury bills for an annual interest rate of approximately 11.11% in the year 2013, and accordingly the loss of income on this investment was about Rs. 463,276,202.

- (f) The Board had invested Rs. 10,000,000 to purchase 1,000,000 units in a unit trust fund in the year 1997. No return had been received by the Board from this unit trust fund from the year of purchase of this investment up to the year under review. However, if this investment had been made for at least a 5% of minimum interest rate in the relevant time period, the estimated loss of income was Rs. 12,920,000.
- (g) Whereas 3,302,188 shares of a telephone company purchased prior to year 2007 had become an investment of Rs. 110,340,299 by 31st December 2013, and the Board was unable to obtain capital gains through the investment as it was not utilized for trading transactions in the share market during the past 7 years. The dividend income received from this investment for the year 2013 was Rs. 2,526,174 or was a very low income rate of 2.29%.
- (h) The Board was unable to obtain capital gain or dividend income from the investment worth of Rs. 2,550,000 made in 30,600 shares of a financial company by 31st December of the year under review due to the rapid decline in the share market prices and the continuous loss making situation of this finance company past several years.
- (i) The Board had not received any return in 2013 from Rs. 700,560,142 invested in 18,817,090 shares of 24 companies. The details of companies in which the Board had invested funds but where no return had been received during last 4 years are given below.

Year	No. of Companies	No. of Shares	Invested Amount Rs.
2010	17	4,111,468	119,083,880
2011	18	7,683,979	163,867,080
2012	25	13,046,750	226,125,038
2013	24	18,817,090	700,560,142

#### 4.2 Legal issues raised by and against the institution

A compensation of Rs. 21,000,000 was paid to a private company due to an un-favourable litigation against the Board with regard to violation of an agreement. Then as a result of an appeal made by the Board against this court order, the said complainant company had submitted to the court a bank guarantee for the same amount. Even though this amount was accounted for as due to be paid to the Board, the recovery of this amount had been doubtful as the payment had made on an un-favourable litigation. However the relevant court had not issued a final decision over this appeal as at 31st December 2014.

#### **4.4 Unauthorized Transactions**

The following observations were made.

- (a) While a loan of Rs. 3,000,000 had been granted to the sports club run by the officers of the Board without a contractual bond and the approval of the General Treasury in contrary to the objectives of the Board during the year under review, though it was informed that this loan will be paid back on a 10% interest rate for 24 installments, only an amount of Rs.498,310 was paid back during the course of the promised time period .
- (b) An amount of Rs. 1,742,166 was spent for the external activities of the Board and needs of several parties.
- (c) Intimating that the Board is governing under the Shop and Office Employees' Act, due to payment of one and half times for an hourly rate of overtime and Saturday/Sunday covering up of 8 hours, payment of overtime inclusive of one day's wage, the cost of overtime for the year 2013 had been Rs. 18,000,252. According to the act, the staff of the Board should work five and half days for a week for the entitlement of overtime, while 42 days leave had been granted in contrary to the provisions in the act which limited it to 21 days leave entitlement for a year and had been allowed for 5 working days per week.

#### **4.5 Identified Losses**

An amount of Rs.2,044,420 was written off from the book during the year under review as shortage of fixed assets.

#### **4.6 Staff Administration**

Due attention was not made to recruit employees to fill the total of 52 vacancies in the Board including 17 vacancies in staff grade posts by 31st December of the year under review.

### **5. Accountability and Good Governance**

#### **5.1 Internal Audit**

Internal Audit had not been planned and implemented to cover source of major affairs of the Board in accordance with Section 133(2) of Financial Regulations.

#### **5.2 Budgetary Control**

It was observed that the budget was not utilized as a productive management control tool due to considerable variations observed between the actual incomes and expenditure and budgeted income and expenditure.

### **6. Systems and Controls**

The deficiencies observed in systems and controls during the audit had been informed to the Chairman of the Board time to time. Special attention is required in respect of the following areas of control.

- (a) Accounting.
- (b) Amounts receivable and payable .
- (c) Timely amendments to the Act.
- (d) Investments.
- (e) Maintenance of Member Accounts

  
**W.P.C. Wickramarathna**  
Auditor General (Acting)

## Observation of the Board with regard to the Report of the Auditor General - 2013

### 2.2.1 Sri Lanka Accounting Standards

- (a) Disagrees with your observation. According to the Paragraph 58 of Sri Lanka Accounting Standards No 39, an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial assets or group of financial assets is impaired. If any such evidence exists the entity shall apply paragraph 63 (for financial assets carried at amortized cost) Paragraph 66 (for financial assets carried at cost) or paragraph 67 (for available for sale financial assets) to determine the amount of any impaired loss.

Further, according to Section 46 of Sri Lanka Accounting Standards No 39 - All financial assets except those measured at fair value through profit or loss are subject to review for impairment in accordance with paragraph 58 to 70 and appendix A Paragraph AG84 to AG93).

Hence, the Financial Assets classified as "Fair Value through profit or loss" (FVTPL) shall value based on its market value at the end of the reporting period. Therefore, no requirement had arisen to perform an impairment test for the Equity Investment which had classified as FVTPL in Financial Statement. Therefore, the recognition, measurement and disclosure of investment in share market had been done in accordance with the Sri Lanka Accounting Standards which is approved under the Sri Lanka Accounting Standards Act No. 15 of 1995 and Gazette notification No. 1738/40

- (b) The Property Plant and Equipment of Rs.183,067,000 of 31st December 2013 were not revaluated due to fact that the revaluation result does not cause much of an impact on the financial statements, and the cost for assessing property plant and equipment by a professionally qualified assessor cannot be generalized in comparing it to the benefits received through it.

The Board's property plant and equipment are merely being utilized for common administrative purpose in 17 branches around Sri Lanka and 5 offices situated around Colombo, and due to the rarity of this item being sold, these assets are estimated according to the depreciated cost approach in compliance with Sri Lanka Accounting Standards No. 16.

However, we intend to introduce a policy on revaluating property plant and equipment in compliance with Sri Lanka Accounting Standards 16 (34) with the approval of the Board of Directors.

- (c) The objective paragraph of Sri Lanka Accounting Standards 24 is to ensure that an entity's financial statement, contain the disclosure necessary to draw attention to the possibility that its financial position and profit and loss may have been effected by the existence of related parties.

The instructions and ruling are issued by Ministry of Finance and the Board had invested and amount of Rs.470,960,937 to acquire 90% of Lanka Salt Ltd.

Other than above, there is no related party transaction which have impact to the financial result of the Board.

### 2.2.2 Going Concern

We do not agree with your observation. The sole purpose of the dividend equalization reserve is to maintain the annual dividend payment ratio at optional level despite of the annual profit fluctuations.

Further, there is no statutory restriction to use dividend equalization reserve to declare dividend to its members.

Hence, there is no impact to liquidity of the fund as such due to use of dividend equalization reserve to declare a dividend to its member and therefore, no impact to the going concern of the Funds as stated by you.

### 2.2.3 Contributions not credited to Member's Accounts

A status report as at 11/03/2015 with regard to the member's accounts as of 31/12/2013 is stated below:

	<b>Value (Rs. Million)</b>	<b>Percentage</b>
Member's Accounts balance as at 31/12/2013	174,252	
Actual amount credited to member accounts as at 11.03.2015	163,957	94%
Amount to be credited to member accounts	10,395	6%
The consists of the value to be credited to member accounts		
The value of contributions paid by the employers to the Board from 1981 to 31/12/2013	3,154	
The estimated interest and dividends in relation to the contributions paid by employers from 1981 to 31/12/2013	7,241	
	<b>10,395</b>	

Further, we would like to inform that Rs.3,154 million is delayed to be credited to the members accounts due to following unavoidable circumstances.

1. Not providing the necessary employee details to credit the amount, even though the employers have paid the contribution.
2. The difficulty in understanding the method of appropriation of the contributions for each institution, in situation where the contributions were paid by one single cheque for several institutions. (Some of employers being currently inactive)
3. Unclear data included in the half-year reports provided by the employers. (The relevant employer being currently inactive)
4. Inability to gain access to relevant information in the preceding periods due to management changes and the new management not cooperating with providing solutions to problems that arise in those time periods.
5. Identification problems due to providing parts of names to who do not possess national identification cards specially in Estate Sector.

Further, preparations have been made to update the member accounts by obtaining the required details and promoting awareness to active employers through the regional office by minimizing the aforesaid factors.

### 2.2.4 Accounting Deficiencies

- (a) (a) The amount of Rs.4,752,333,000 related to the 3% interest had been credited to the member accounts for the year 2013 was shown in appropriation sections of the profit and loss in the same manner which was accounted in the preceding years. You have suggested to change the place of presenting the 3% of interest amounting to Rs.4,752,333,000 in the financial statements. There is no impact to final result of the year 2013 accounts due to proposed changes and no restriction by the ETF Act No. 46 of 1980 to apply current presentation method.

However, since Financial Statement for year 2014 have already been presented to the Audit, we intend to seek the possibility of applying the proposed method of presentation of 3% interest component in the income statement instead of Appropriation Account with the approval of Board of Directors in 2015 onwards.

- (b) We do not agree with your observation. As explained in detail with the reply No 2.2.1 (a) this accounting treatment is in complying with Sri Lanka Accounting Standards No 39. Accordingly, the profit and loss of shares were recognized by comparing the fair value of the beginning of the year and actual selling prices of each shares.
- (c) Two companies which are under liquidation and a company which had delisted consists of this transaction which do not possess a market value. Therefore, these investments were categorized as Available for Sale financial Instrument instead of held for trading financial instrument. However, no impact to the balance sheet since full provision has been made on this uncertain investments.
- (d) The recovery of overpayment of tax, Over provision of income tax and Adjustment to the member account due to changes in Accounting Estimate and errors had been adjusted to the current year profit since the retrospective adjustment is impractical. Accordingly an amount of Rs.454,624,000 had been retrospectively restated in the financial instruments as per the provision of SLAS 08.

#### **2.2.5 Transactions not supported by adequate authority**

We do not agree with your observations.

In order to the Section 14 of the ETF Act No. 46 of 1980, the Board shall declare dividends from the profits realized by Investments of money of the Fund.

The word "Profits Realized" merely accounting term and therefore we have to follow the general accepted accounting principles.

Hence, in complying with the Sri Lanka Accounting Standards 01 and the explanations given in the conceptual frame work of the Sri Lanka Accounting Standard, we do follow Accrual basis of Accounting Systems not only for recognition of Income but also recognition of expenses. Therefore, the yield on Treasury Bond is treated as realized profit.

Further, the investment in Treasury Bond had recognized as held for maturity investment since it has fixed payment patterns Fixed Maturity and the Board has possible intention and ability to hold such instrument until maturity. The margin amortized on said Treasury Bonds Investments by using Effective Interest Rate represented the value of Rs.2,595,533,063 of which had been recognized as income to the statement of income as done since inception of the Treasury Bond investments by the Board consistently.

Further the investment in Treasury Bond amount of Rs.137,546,313,369 had been recongnized as held for maturity investment and as per Section 46 (b) of Sri Lanka Accounting Standards No. 39. The Treasury Bond investment was measured at amortized cost using the effective interest rate method and as per Section 55 (B) of Sri Lanka Accounting Standard No. 39 and LKAS 18 the interest calculated using effective interest rate method was recognized in profit and loss account.

Hence, the Board either do not deviated from the basic accounting principles when preparing financial statements nor violation of ETF Act when declaring dividends to the members.

#### **2.2.6 Lack of Evidence for Audit**

- (a) Investment schedule including Purchase Price (Cost) Selling Price, Market Value, Profit or Loss as per Buying Price (Cost) had been handed over to you by a letter and one of Audit representative had acknowledge the receipt of the report.

- (b) The physical verification report on fixed assets as at 31/12/2013 had been given to the Audit by letter dated 17/03/2014.
- (c) The investment activities of the Board is carried out in accordance with the Investment Policy which was approved by Board of Directors who have expertise in Investment Field including a representative from Ministry of Finance.

Further in order to Section 8 (d) ETF Board Act No.46 of 1980 the Board has power to invest the money of the fund which are not immediately required for the purpose of this Act in such share or security as the Board may consider fit and may sell such shares and securities.

The Equity Investment were valued at market to market and fair value loss had been charged to the profit and loss as per the Sri Lanka Accounting Standard requirement.

### **2.3 Accounts Receivable and Payable**

The balance of unclaimed death benefit account as at 31.12.2013 was Rs.8,597,636.96 (760 No. of beneficiary applicants). There had been instances where may claimants than one claimant when a death of a member had been occurred and all the claimants were not submitted their claims at one instance and some of them are not in a position to submit adequate information etc. Hence, the amount of claims were retained in this unclaimed death benefits account until the determination of the correct beneficiary.

An amount of Rs.458,936.07 had been paid to 11 beneficiaries as of 28.02.2015. Therefore, the balance amount of said account as at 28/02/2015 is Rs.8,138,700,895 (749 No. of Beneficiaries). Action had been taken to release this benefit to its legal beneficiaries.

The balance of unclaimed refunds account as at 31/12/2013 was Rs.13,969,150.95 (1,249 No. of beneficiaries). This account represents the value of the returned refund which had been directly sent to the bank account of the claimants had been refunded by the bank due to none availability of adequate details of such claimants.

An amount of Rs.3,590,440.25 had been paid to 183 beneficiaries as of 28/02/2015. Therefore, the balance amount of said account as at 28/02/2015 is Rs.10,378,710.70 (1,066 No. of beneficiaries).

The balance of Returned Benefit cheque account as at 31/11/2013 was Rs. 5,182,501.06 (986 No. of beneficiaries). Even though the payment had been made to the claimant by cheques, which had not presented to the Bank until the expiring of validity of these cheques.

An amount of Rs.1,138,094.08 had been paid to 82 beneficiaries as of 28/12/2015. Therefore, the balance amount of said account as at 31/12/2013 is Rs. 4,044,406.98 (904 No. of beneficiaries).

A special attention will be given to this matter by the committee which was appointed by the Audit Committee of the Board.

### **2.4 Non Compliance with Laws, Rules, Regulations and Management Decisions**

- (a) i. Based on recommendations of a committee appointed for absorption of existing employees in to job grades in the new Scheme of Recruitment (SOR) without reducing enjoyed privileges in the old SOR governed up to April 2013, the Board of Directors has approved to implement the absorption process with effect from May 2013. It has also been applied the approved salary codes, scales and salary steps introduced by the Management Services Department.
- ii. Though, it has been instructed to remove the Post of Board Secretary from the cadre an approval has been granted by the Management Services Department to keep the present Board Secretary on a personal basis until she retires. However, we have requested from the Management Services Department to include the post of Board Secretary into the Cadre as it is essential.

- iii. The Annual Bonus for the year 2013 had been paid to employees based on the Paragraph 4.3 of the Management Services Circular No. 2013/01 (1). A copy of said circular has given to the Audit.
- (b)
- i. The loan granted to staff at concessionary rate had been operated since 1997. The concurrence of the Ministry of Finance & Planning had been granted to the said loan scheme by a letter dated 10th November 2014.
  - ii. From the beginning of year 2014, PAYE tax liability is deducted from employee monthly earnings and remitted to the Department of Inland Revenue
  - iii. A disclosure clause regarding the responsibility of management to prepared financial statement was included in Financial Position Statement as at 31st December 2013.
  - iv. The monthly incentive payment implemented since 1992 on the approval of Board of Directors was continued for the year 2003 on the same basis and the concurrence of the Ministry of Finance & Planning has granted by a letter dated 10th November 2014.
- (c) The existing Financial Procedure Manual had been approved by the Board of Directors and had sent for the approval of Ministry of Finance & Planning. No. response had received yet from the Ministry. However a comprehensive manual for Financial Procedure had been drafted and intend to obtain the approval of Board of Directors and thereafter the approval of Ministry of Finance.

### **3. Financial Review**

#### **3.1 Financial Results**

We disagree with your observation. You have arrived to the operation profit for the year 2013 after deduction Rs.2,595 million as a margin amortization (EIR) as Treasury Bond Investment and Rs.4,752 as an 3% interest paid to the members through appropriation account. Other than the different view of presentation there is no such drawback of the fund. The profitability of the fund increased by Rs.3,220 when comparing to the year 2012.

#### **3:2 Analytical Financial Review**

Agree with the observations.

### **4. Operating Review**

#### **4.1 Performance**

- (a) A special program is being implemented to enroll self employed persons to this fund through the regional office network scattered over the island.

Steps have been taken to increase the number of memberships which was 28,152 in 2012 to 33,278 in 2013. Programs have also been implemented in order to enroll Samurdhi Authority, Dairy Farmers' Union affiliated with the Milko Company, members trained by Industrial Development Board and self employed in leather and footwear industries and Gardeners employed in flower companies affiliated with National Botanical Gardens and steps are also taken to increase the number of members by introducing new benefits.

Employees and Employer relationship in the self employment each caused to growth of the Self employment membership.

However, it is mandatory that all employees of private and semi government sectors pay the contributions. Contributions are also obtained by filing lawsuits for those employers, but as a self employed person should pay contributions by himself, and while they are not mandatory, they have led to the fall in increasing membership.

- (b) The estimated number of active members in the Fund is 24 Lakhs. According to that, if the Board launches a benefit scheme in order to uplift the educational activities of the children of all the active member, the cost incurred is going to be substantial. The Board cannot afford such a huge expense.

In order to the ETF Act No. 46 of 1980 the Board is bound to credit dividends and interest to all the member accounts at the end of each year. The Board will only be able to provide a sufficient amount of dividend and interest, only if there remains excess cash to be invested. Moreover, steps will be taken to increase the amount of scholarships granted annually to all applicant members based on the number of scholarship applications received for children of active members.

Therefore, I state that the current benefits which are granted to the members due to various circumstances and factors need to be carried out further.

- (c) As per your audit query the statistics of the Employees' Trust Fund such as total number of memberships, active accounts and the number of employers in comparison with the statistics of the Employees' Provident Fund as at 31st December 2013 is given below. However, we have noticed a calculation error in variance column in your audit query.

Description	According to the EPF	According to the ETF	Percentage %
Total number of memberships accounts	14,987,000	10,000,000	67
No.of active accounts sending contributions in the present	2,350,000	2,200,000	94
No.of employers	70,392	72,145	102
Percentage of benefit with interest paid on 2013	11.0	10.0	91

Employees' Provident Fund was established on 1958 and Employees' Trust Fund was established on March 1981. As mentioned in the Audit report of 31.12.2013, the difference between the total number of membership accounts in E.P.F and E.T.F might have been the cause of it.

Whereas a member can apply for obtaining the fund owned by him in transferring from one company to another or due to resignation (once in 5 years), except for a limited reasons the member cannot apply for the E.P.F. Accordingly there can be seen a difference in the active accounts of both Funds on 31.12.2013.

Despite the no of active employers being stated as 73,021, our report reads 72,234. Moreover, the number became 74,362 on 31.12.2014 and 75,950 as of 30.06.2015.

## 4.2 Investment and Investment Income

- (a) The Rs. 27,497,905.12 of investment interest should be paid by 2 companies and is as follows.

	Rs. Cts.
i Elkaduwa Plantation Limited	12,291,556.16
ii Vanik Incorporation	206,348.96
iii Vanik Incorporation	15,000,000.00
	27,497,905.12

### i. Elkaduwa Plantation Limited (Rs. 12,291,556.16)

The interest for Rs15 million debenture by the Elkaduwa Plantation Limited is stated to be Rs.12,291,556.16. Rs 15 million of debenture was invested in Elkaduwa Limited in 1994 on the decision made by a cabinet of ministers. Even though the first interest installment

for the debenture was paid to us, the remaining interest installments and Rs15 million of investment that should be paid in 1999 was not paid back.

A discussion was conducted with the relevant parties. As a result, whereas the invested amount was paid off by 12.08.2010 by paying Rs 2.5 million per month, a promise was made that the remaining interest will be paid back Rs. 5 million per month. Accordingly the first installment was paid on January 2011 and 11 installments were paid till November leaving an arrears of the remaining installments. The Chairman was sent a letter dated 07.07.2015 stating that the Elkaduwa Plantation Limited was facing financial difficulties, and that the payments will be carried out as promised as soon as possible after discussing with the Ministry of Plantation Industries.

**ii. Vanik Incorporation (Rs.206,348.96)**

It is the interest that should be paid for the debentures issued by Vanik Incorporation. There is an ongoing case of liquidating this company and the hearing is set for 16.11.2015.

**Vanik Incorporation (Rs.15,000,000.00)**

In 31st December 1998 a sum of Rs. 100 million of debentures with guaranteed for capital was invested in Vanik Incorporation for 15% interest rate for 5 years. Though the Board was able to recover the capital amount of 100 million from the guarantors on 30.04.2003, the institution being unable to pay the interest. There is an ongoing case of liquidating this company and the hearing is set for 16.11.2015.

- (b) The debenture value of Vanik Corporation is Rs. 7,450,259. Even though this amount expired there was no payment done. There is an ongoing lawsuit regarding this company and the hearing is set for 16.11.2015.
- (c) It had been stated shares of 6 companies were sold for a loss by comparing the costs of selling said shares. However the Board accounts for profits and losses in transactions in the share market based on fair value. When viewed as such the Board had received a capital gain of Rs.19,794,613.75 by selling shares of those 6 companies.
- (d) 363,800 shares of the P.P. House Company were bought by the primary issue. Rs. 623,117.74 of capital gain was received by selling 175,000 shares in 2011. It is normal to balance the losses incurred by the sale of profitable shares in case of losses, as these types of uncertainties can occur in the operation of companies listed in the stock market.
- (e) According to Section 7 (a) of the Employees' Trust Fund Act the Fund has to take part in active contribution in the capital market. Accordingly the Board's Investment Policy approves investing no more than 6% of the entire investment in the share market. Taking part in active contribution in the share market as an institution that provides huge contribution in the financial market of Sri Lanka is identified as the helping hand for thriving and developing in its field. However the Board was unable to attract a high income rate through investments in the share market due to fluctuations of prices in the share market in 2013 and due to no considerable development in the price index in relation to the preceding year. Yet, the Board was able to earn 36% of the investment in relation to soaring prices in the share market in 2014.
- (f) 2,500,000 units at Rs. 10.00 each of Namal Growth Fund had been purchased in 1997 and 1,500,000 had been sold and earned capital gains of Rs. 33,183,600 in the years 2006, 2007 and 2009 and dividends had been received in the year 1999 and 2001. The capital gains are the main source of income by selling of these units. The current market value of a unit as at 31.12.2014 is Rs. 137.72 which was purchased at Rs.10.00 and the unrealized profit is Rs. 127.72. Accordingly in comparison to the investment of Rs. 10 million Rs. 127 million of capital gain was earned by 31.12.2014. These units could be sold at any time for the price prevailing at particular day. The balance units are held, to sell during the right time. Accordingly, this can be considered an investment generating high income when compared to the treasury bills.

- (g) The share investment in Sri Lanka Telecom e PLC was done in year 2002.

The secretary to the Treasury by his letter dated 25th February 2008 had instructed us not sell this shares without written concept of the General Treasury. Since the transaction of this share investment is frozen.

- (h) A very old investment. The investment made in the Finance Company PLC in 1994 has fallen in its market value. Fluctuations in prices is the nature of the share market. However it is expected to obtain capital gain by selling the shares when the market value of the shares of this company are increased.
- (i) Even though audit query noted that nothing has earned from the Rs.700,500,142 installment made in 24 companies, a sum of Rs. 2,003,774 of dividends from 3 companies and Rs. 10,882,168 from 6 companies as capital gain were received in year 2013. The investment in shares of 16 out of the 24 companies were sold and Rs. 66,623,633 of capital gain and Rs. 8,190,462 of dividends were received in 2014.

The shares generating low income were sold with capital gains, and the money has been invested in buying shares of companies with high income generation. Further, it has been able to maintain a manageable quantity of the number of companies that the Board invested in the stock market.

#### **4.3 Legal issues for and against the institution**

With regard to the Case no 56 (98) 1 filed against the Board related to the violation of the agreement the Board made with Somerville and Company (Pvt) Limited.

Even though the Board also had pleaded its case the Court issued the order that M/s. Sommerville & Co. should be paid Rs. 21.9 million. Accordingly, Rs. 21.9 million was paid to the said Company.

However, the Board had been filed an appeal against the Case No.56/98 (1) with M/s. Sommerville & Co. and on the order of Appeal Courts the above company has deposited a bank guarantee worth of Rs.21.9 million in the Court.

The Supreme Court Case No. SC/SH/20/2003 filed by the Board will be called on 01st September 2015.

#### **4.4 Unauthorized Transactions**

- (a) The Sports Club of ETF Board which was established by staff members of the Board and the Board of Directors had approved a loan of Rs.3 million at 10% Annual Interest Rate to the loan is being recovery in installment with the interest from payments to be paid by ETF Board to the Sports Club for the supply of tea and cleaning services to the Board.
- (b) All expenses except the expenses incurred for welfare activities for which the majority of Board's employees participate such as conferences, public events and expenses incurred for a self employees welfare activities and promotional activities carried out were commemorative magazines and newspaper advertisements. Annually we receive many requests from various organizations and institutions to get advertisements for newspaper supplements and commemorative magazines when they conduct annual events. Out of all these requests we usually sponsor advertisements that only directly or indirectly advertise the activities of the Board. In all news paper advertisements and souvenir advertisements given to magazines we definitely mention the need of paying the contributions on behalf of their employees. Accordingly, Rs.1,742,166 expense incurred in this year were solely from advertising the services granted by the Board, employee welfare, promotional activities for self employment and the professional membership of an employee, it does disagrees with your observation that these were incurred by external activities to external parties.
- (c) Payment of overtime to the employees is made as per the provisions in the Shop and Office employees Act and in accordance with the prevailing practices in the Industry.

Furthermore, employees of the Board are provide total of 42 days leave per annum as per the practice in the Industry and if such leave is reduced to 21 days as per the Shop and Office Employees Act we have been informed by the Employees Federation of Ceylon by their letter dated 01st April 2014 in response our request that it will be a discrimination to the enjoyed privileges of the employees and also be damaged to the industrial peace. As such they have not recommend to withdraw such enjoyed facility of the employees at this time. A copy of the recommendation given by the Employees Federation of Ceylon has been submitted for auditing.

#### 4.5 Identified Losses

We do not agree with your observation. No write off made against fixed assets during the year 2013.

#### 4.6 Staff Administration

We do not agree with your observation.

It is the practice of the Board to take steps to fill in the vacancies present in the staff estimate of the Board according to the requirements of each division.

### 5 Accountability and Good Governance

#### 5.1 Internal Audit

During the year Internal Audit Division has done following Internal Audit Works.

<b>Member Benefits</b>	<b>No of Claims Checked</b>
Normal Benefits	93,284
Self employment benefits	691
Insurance benefits	2,684
Heart surgery benefits	565
I.O.L	653
Death benefits	1,075
Shramasuwa Rakawarana	2,377
Kidney transplant	25
A/L and Grade 5 Scholarship benefits	5,730
	107,084
Staff Medical Benefit	7,545
<b>Total</b>	<b>14,629</b>

Additionally, Staff final payments, Monthly staff incentive payment percentage, "Viyana" Housing Loan and SMIB Housing Loan reimbursement, Annual Staff bonus, Staff annual leave, pre audits has been done..

In addition to above Pre Audit works, following Post audit works has been done.

- Contribution and surcharge income progress review
- Money order outstanding
- Returned Benefits
- Annual Board of Survey – 2012
- Investments
- Staff Uniform 5% recovery
- Badulla Regional Office Audit 2013
- Cash Book verification 2013 – B.O.C 1839
- Surcharge Income receivables

- Surcharge Income waive-off cancellation and journal entries
- Physical verification of cash in hand

All above Internal Audit Reports have been submitted to the Auditor General.

## 5.2 Budgetary Control

The budgeted income of the Board for the year 2013 was Rs. 16,350 million and the real income was Rs. 16,476 million. Accordingly variance of net profit of the Board is less than 1%. Likewise the budgeted operational cost was Rs. 1,330 million and the actual operational cost was Rs. 1,310 million. Accordingly variance of operational cost is 1.5%. Therefore, we disagree with your observations that the Board had been maintaining a good budgetary control.

## 6. Procedures & Controls

### (a) Accounting

Financial Statements of the Board are prepared in accordance with the Sri Lanka Accounting Standards.

### (b) Accounts Receivable and Payable

Replies provided under 2.3

### (c) Timely amendments required on the Act

The amendments proposed for the Employees' Trust Fund Act No. 46 of 1980 are stated below:

Section No. Section proposed to be included, repealed or substituted of the Act

- |       |  |
|-------|--|
| 5(1)  | The Board shall consist of eight appointed members and one ex-officio member: the person holding office for the time being as the Commissioner General of Labour.  |
| 16 1a | The following new Section is proposed to include immediately after Section 16(1) of the Act. "Employers may make contributions in respect of their employees through manual or electronic means: Provided, however, it is mandatory to every employer having in his employment a minimum of fifty (50) employees to make contributions in respect of their employees through the electronic means with effect from a date directed by the Minister by a Gazette notification".   |
| 28    | In a recent Fundamental Rights case, the Supreme Court held that the procedure of filing civil action in the District Court prior to filing action in Magistrate Court as stated in the EPF Act should be followed. This Judgment had direct effect on the certificate filed in the Magistrate's Courts by the ETF Board because the provisions for the recovery of defaulted payment in both the Acts are similar. Therefore, it is proposed to amend the existing Section by changing the sequence of provisions to give priority to the Certificate procedure (section 28(3)) in the Magistrate's Courts and only where such procedure is impracticable resort to civil action (section 28 (1) & 28 (2)) in District Court. |
| 37A   | This section is proposed to amend by substitution for the words "a surcharge at the rate of one percent of the amount of the contribution to which the return relates for every completed month or part thereof", of the words, "a surcharge at the rate of one percent (1 %), subject to a maximum of fifty percent (50 %) of the amount of the contribution to which the return relates for every completed month or part thereof".  |
| 37B   | The following new Section is proposed to include immediately after Section 37 A of the principle Act.  |

"It shall be the duty of every employer having in his employment a minimum of fifty (50) employees to furnish returns described in Section 37 in this Act to be submitted monthly by electronic means to the Board with effect from a date directed by the Minister by a Gazette notification".

- 37C The following new Section is proposed to include immediately after Section 37 B of the Act. "An employer shall not fail to include the details, which shall be filed and completed by the employer of an application of benefit of an employee who terminates the service under the said employer and to certify the said application".
- 37D The following new Section is proposed to include immediately after Section 37 C of the Act. "Where any employer, who is required in terms of this Act or any regulations made there under to furnish a return along with his contribution, has fail to do so within the specified period or has furnished incorrect or incomplete return, the Board shall assess the contribution and surcharge on the basis of all evidence both oral and documentary available to the Board of the amount that ought to have been paid by such employer and such amount shall be deemed to be a default in the payment which such employer is liable to pay under this Act.
- 39 Section 39 of the principle enactment is proposed to amend by substitution for the words "one thousand rupees", of the words "ten thousand rupees and an order to submit returns within 3 months".
- 40C1 Notwithstanding anything in the Companies Act, No 07 of 2007 upon the winding up of Company the Secretary, Manager, Director or other principal officer of every company or body of persons, corporate or un-incorporate, shall be jointly and severally liable to any amount due to the Fund during the period in respect of which he held office, if such amount due to the Fund was not recovered from such Company or body of persons corporate or un-incorporate.
- 40C2 Upon the dissolution of a partnership the precedent partner of such partnership shall be individually liable to any amount due to the fund during the period in respect of which he was the precedent partner, if such amount due to the fund was not recovered from such partnership.

(d) Investments

The targeted income for the year 2013 was achieved through investments, and the Board was able to credit 10% of interest and dividend to the balances of the members. It was able to surpass the budgeted 9.5%.

(e) Maintenance of member accounts

Steps will be taken to direct special attention on maintaining member accounts, provide annual financial statements to the member accountholders and send such statements to relevant employers.



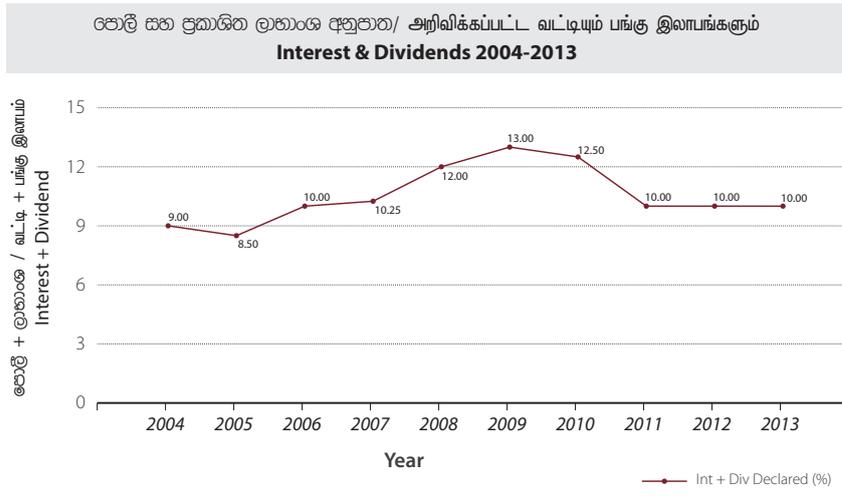
**Mahinda Madihahewa**  
Chairman / Chief Executive Officer  
Employees' Trust Fund Board.

STATISTICAL ANNEXURES

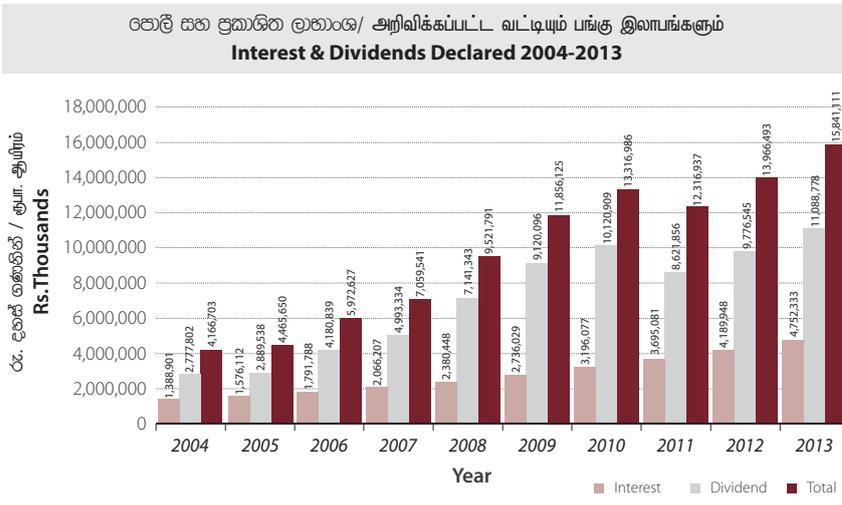
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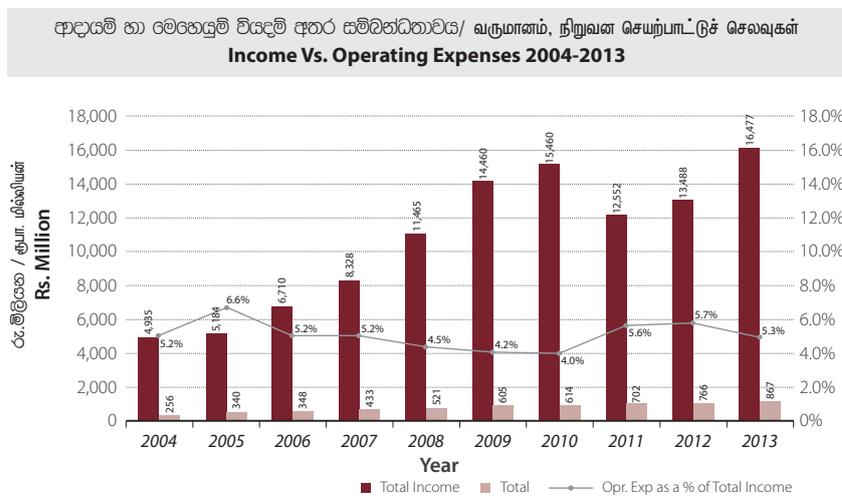
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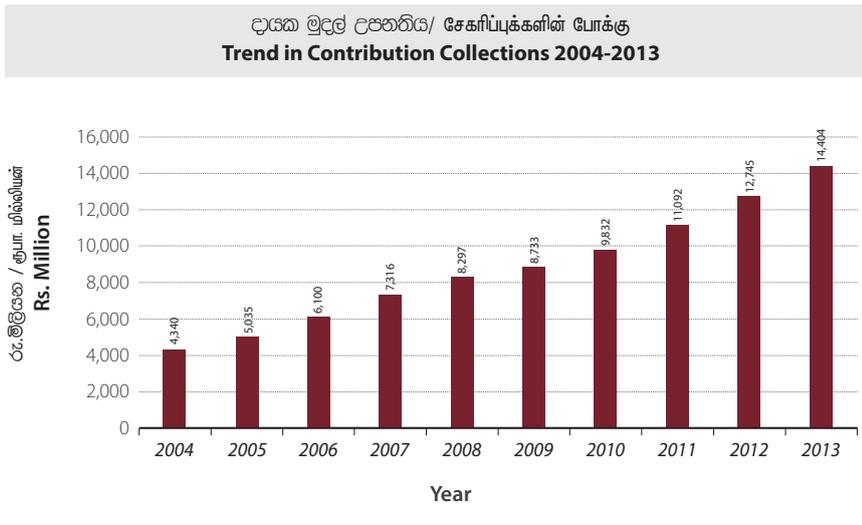
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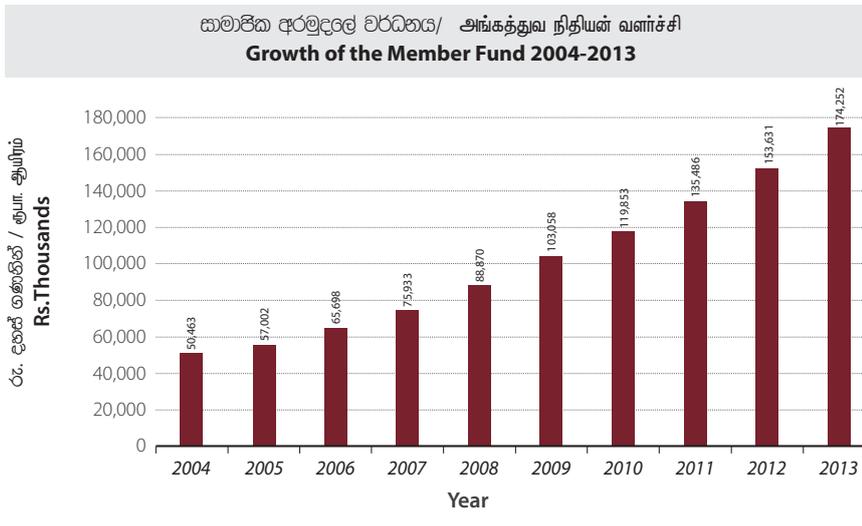
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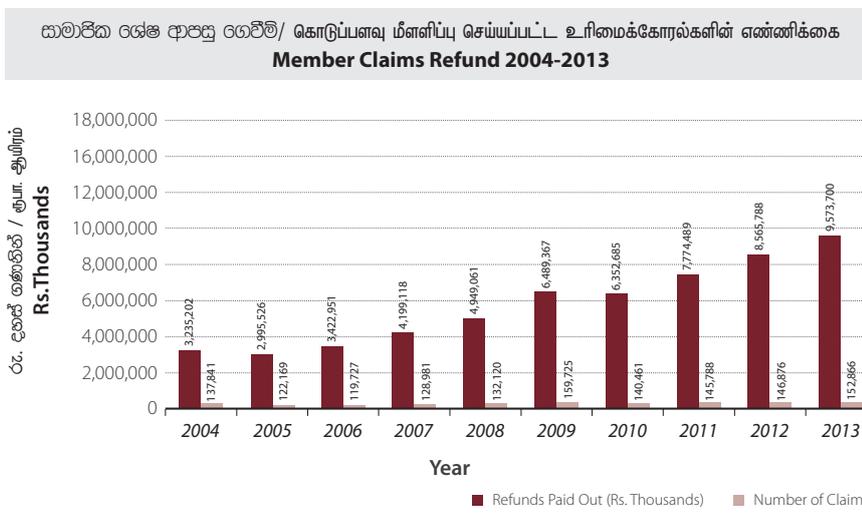
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புள்ளி / வரைபடம் / Graph - 05



புள்ளி / வரைபடம் / Graph - 06





குட்டிர் / வரைய / Graph - 10

அடிக்கார் அடிக்கலி/ மிகை அறவீடு வரமானம்  
**Surcharge Income 2004-2013**

