

2012

வார्षிக வார்தாவ
ஆண்டறிகக
ANNUAL REPORT



சேவா விசுவக்தஸதீஸீ லார அரமூதரீ மனீவிரச
஁ழியர் நம்பிககை பெறுப்பு நிதியச சபை
EMPLOYEES' TRUST FUND BOARD

ANNUAL REPORT

2012



Employees' Trust Fund Board

1st Floor, Labour Secretariat
P.O. Box 807, Colombo 05.

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BOARD OF DIRECTORS

AS AT 31ST DECEMBER 2012

Mr. K.M.A. Godawatte

Chairman/CEO

Appointed by the Hon. 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

Mr. P.A. Abeysekara

Director

Treasury Representative

Mrs. G.L.D. Dahanayake

Director

Trade Ministry Representative.

Mr. C.L.K.P. Jayasuriya

Director

Representative of Employers' Federation of Ceylon

Mr. Ranjith Hettiarachchi

Director

Trade Union Representative

Mrs. Deepa Weerasooriya

Board Secretary

SENIOR MANAGEMENT

AS AT 31ST DECEMBER 2012

Chairman/CEO

Mr. K.M.A. Godawatte

Working Director

Mr. G. Tissakuttiarachchi

Additional General Manager

Mr. M.C.H. Gunaratne

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)

our Vision

To be the most Dynamic and
Viable Premier Trust for all Stake
Holders through Organizational Excellence

our Mission

Be the most caring and Prudent Trust Providing
a wide Range of Financial Member Benefits and
Excellent Customer Services.

corporate Values

- ☑ *Trust*
- ☑ *Honesty and Integrity*
- ☑ *Accountability*
- ☑ *Team Spirit*
- ☑ *Reward and Recognition*
- ☑ *Hospitality*
- ☑ *Commitment*
- ☑ *Responsiveness*
- ☑ *Creativity & Innovation*

Employees' Trust Fund Board

Report of the Board of Directors > 2012

Report of the **Board of Directors** for the year 2012

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 2012.

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 2012. Some achievements are highlighted below.

1. The total Contributions from employers for the year was Rs. 12.75 Billion which was an increase of Rs. 1.66 Billion than the previous year.
2. The total Investment income was Rs.13.2 Billion during the year compared to Rs.12.3 Billion in 2011 showing an increase of Rs. 0.9 Billion while the value of the investment portfolio increased from Rs.134 Billion to 150 Billion at the end of the year. The reason for the marginal increase in income was the reduction of fixed income interest rates during the year.
3. The Board earned a net profit of Rs. 12.1 Billion compared to Rs. 11.3 Billion in the previous year while Rs. 13.9 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.158 Billion at the end of the year.
5. The income on equities during the year was Rs. 333 Million compared to Rs. 719 Million during 2011. The decrease was due to the continuously depressed Share Market during 2012.
6. Despite the overall drop in investment income during 2012, we were able to declare a total rate of 10 % to our members at the end of the year as interest and dividend for 2012. (*See Graphs 1 & 2*) This was an attractive rate compared to the rates offered by Banks/Financial Institutions to its customers in end 2012. A further Rs.01 Billion is available in reserve in the Dividend Equalization Reserve.
7. The operating expenses of the Fund which was 5.6 % in 2011 increased to 5.7 % during the year due to constant and unavoidable increases in recurrent expenditure such as staff salaries, fuel, electricity, water, postage etc. (*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 the Ratnapura, Badulla and Anuradhapura Offices in 2013.
10. The new Regional office established in Jaffna in November 2010 showed encouraging progress during 2012 with increased contributions by employers and more awareness by members regarding the benefits offered by the Fund.
11. The updating process of all Member accounts were carried out successfully during the year and succeeded in completing 96 % of the backlog during the year. The balance which are 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 2011.
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 enhanced during the year with about 30,000 members enrolled 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 a further 28,000 Members, in addition to the Samurdhi Members.
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.

The Principal activities of the Board continued as follows during 2012.

PRINCIPAL ACTIVITIES

Employer Contributions and Members Fund

The Revenue 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 3,951 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 2012 had increased to 70,194. Similarly the total contributions received from the employers in respect of their employees during 2012 was Rs 12.75 Billion compared to Rs. 11.09 Billion in 2011. (*See Graph 4*) Further, the value of the Member's Fund increased from Rs. 135.5 Billion to Rs.153.6 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 2012, 146,876 refund claims were processed and the total amount paid was Rs 8.6 Billion. Comparatively during 2011, 145,788 Claims were processed and the value was Rs 7.8 Billion. During the year the average amount paid per claim increased to Rs 58,320 from Rs 53,327 in the previous year. (*See Graph 6*) The outflow on claim payments showed a marginal increase during the year. During 2012, 3,962 benefit claims were processed and the total amount paid was Rs 134 Million. Comparatively during 2011, 4,153 claims were processed and the value was Rs 138 Million. Rs 75 Million was deposited in peoples Bank in year 2012 on behalf of the 5,000 children of members who had passed the Year Five Scholarship Examination in the year 2011. (*See Graph 7*), Rs.24 Million had been paid to 2,000 Children of ETF members who had passed the GCE (A/L) Examination in year 2011, as assistance for their higher education. As there was a delay in issuing of official results by the Dept: of Examinations, paying of money for the children who had passed the GCE (A/L) in 2012 was delayed and couldn't be paid during the year. Work is in progress to complete the payment of above allocated amounts as soon as possible during 2013.

Rs 69 Million was released in year 2012 to the NDB Bank on behalf of “**Viyana**” Housing Loan scheme to facilitate 54 members to obtain housing loans.

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

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

➤ From December 2012 for the convenience of Members who require money urgently, a special express claims unit was setup in the Claim Section to enable a member who hands over his application in the morning to get his cheque before the end of the day.

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 members of the fund as at the end of the year was approximately 10 Million. The fund maintains member accounts for all the active and inactive members.

9,666,352 member accounts were updated up to year 2011 as at 31-12-2012 and it is approximately 96% of the total estimated number of member accounts. Out of these accounts 7,641,356 were inactive while 2,024,996 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. 134 Billion to Rs.150 Billion in 2012 which an increase of 11.94% over the previous year.

During the year 2012 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 134 Billion (90 %) was invested in Government Securities and Rs. 2.99 Billion (2 %) invested in other Government Guaranteed Fixed Income Instruments whilst Rs. 7.3 Billion (4.9 %) was invested in equities. (See Graph 8)

The Board has earned a profit of Rs.324 Million on shares by way of dividends and capital gains as compared to Rs. 703 Million in the previous year. The decrease was due to the depressed share market conditions which prevailed during 2012.

As stated earlier, during the year 2012, ETF earned an investment income of Rs.13.2 Billion as against Rs.12.3 Billion in 2011 which was an increase of Rs. 0.9 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 2013. Further It is examining the possibility of trading in debentures in the secondary market for more attractive gains.

Attention was also focused on training some young Graduates 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 October 2012 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.

As stated earlier a new Regional office was opened in Jaffna in 2010 to cater to the need of employers & Members in the Northern Region and this office is performing well. With this 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 2009 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 2012 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 350 employers are paying Contributions via Internet. Further discussions had been finalized with Sampath Bank & People's Bank to operate this scheme from 2013.

Performance of this Division was very encouraging throughout the year as could be seen in the following table.

	2012	2011
No. of Premises Inspected	34,182	29,526
No. of Defaulters Detected	22,788	19,692
No. of Cases filed	2,196	1,991
Contributions Recovered through Enforcement	Rs. Mn. 445	500
Surcharges Recovered	Rs. Mn. 205	183
Income from Legal Activities	Rs. Mn. 87	64.3

(See Graphs 9 – 10)

Instructions have been issued to all Regional Offices to make every attempt to increase the compliance rate during 2013. Further quarterly progress review meetings were held with all Regional managers during the year.

Administration/Human Resources

During the year under review, there were 22 new staff recruitments to the various Divisions of the Board while 17 numbers of persons left the services of the Board due to retirements, resignations, terminations etc. In addition 94 numbers of staff members were promoted to higher Grades. By end of the year the total employees of the Board had reached 913.

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 Managements were 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, co-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.

Further, action has been taken to bring the Supplies management function under the Finance Division from 2012, for better financial Management. Hence, The Supplies and Stores management and Tender Board functions were handled by the Finance Division from 2012.

The Finance Division was successful in preparing the Annual Accounts for 2012 based on the Sri Lanka Financial Reporting Standards (SLFRS) for the first time.

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 2012 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

Many of 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. Hence in early 2011 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. Thereafter, 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 it will be sent to the Ministry of Finance & Planning and the Legal Draftsman for further formalities and we hope that these amendments could be presented to Parliament by end 2013.

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 piling work for the construction of this building has been completed while unfortunately there is a delay in selecting the main contractor for the building. It is expected to commence the construction in 2013 and 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.

Special Projects

1. In early 2011, the Management decided to construct a Circuit 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 by December, 2012. The landscaping and finishing touches are being done. while it has been decided to the demolish the old office building and construct a new office on one side of the same premises.
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.

Board of Directors

The Board of Directors of the Employees' Trust Fund as at the end of 2012 was as follows:

Mr. K.M.A. Godawatte
Chairman/CEO
Appointed by the Hon. 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

Mr. P.A. Abeysekara
Director
Treasury Representative

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

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

Mr. Ranjith Hettiarachchi
Director
Trade Union Representative

Mrs. Deepa Weerasooriya
Board Secretary

Senior Management

As at the end of 2012 the Senior Managerial positions of Employees' Trust Fund Board were occupied as follows:

Chairman/CEO Mr. K.M.A. Godawatte Working Director Mr. G. Tissakuttiarachchi Additional General Manager Mr. M.C.H. Gunaratne	Deputy General Managers <table> <tr> <td>Mrs. R.N. Gnanasekera</td><td>(Investment)</td></tr> <tr> <td>Mr. J.M.S.B. Udugama</td><td>(Collection & Employer Relations)</td></tr> <tr> <td>Mr. W.S. Dissanayake</td><td>(Member Services)</td></tr> <tr> <td>Mr. L.H. Nihal</td><td>(Administration & Human Resources)</td></tr> <tr> <td>Mr.K S Weliwita</td><td>(Internal Audit)</td></tr> <tr> <td>Mr.N.W. Wimalaweera</td><td>(Finance)</td></tr> </table> Assistant General Managers <table> <tr> <td>Mr. C. Mallikarachchi</td><td>(Member Accounts)</td></tr> <tr> <td>Mr. H. M. Seneviratne</td><td>(Member Services)</td></tr> <tr> <td>Mr. W. Sooriyarachchi</td><td>(Enforcement) - Region I</td></tr> <tr> <td>Mr.A.J.M.S. Jayasundara</td><td>(Enforcement) - Region II</td></tr> <tr> <td>Mr. M.S. Dissanayake</td><td>(Enforcement / Self Employment)</td></tr> </table>	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)	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)
Mrs. R.N. Gnanasekera	(Investment)																						
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Mr.A.J.M.S. Jayasundara	(Enforcement) - Region II																						
Mr. M.S. Dissanayake	(Enforcement / Self Employment)																						

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, Minister of Finance and State Revenue and Deputy Minister of Finance & Planning, the Secretary of 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 2012. 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 extends 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 is commendable.

Audit Committee Report – 2012

The Audit Committee was established in year 2003. The Audit Committee, appointed by the Board of Directors comprises three independent Non-Executive Directors. The Chairman of the Audit Committee is a Senior Chartered Accountant with considerable experience in the fields of Finance and Audit.

The Audit Committee met five times during the year 2012. In attendance were the Addl. General Manager, Deputy General Manager (Internal Audit) as Convener, all other Deputy General Managers, Group Officer of the Government Audit and other relevant Officials who attended the meeting by invitation.

The proceedings of the Audit Committee are regularly reported to Board of Directors.

The Audit Committee assisted the Board of Directors to ensure that all relevant rules and regulations and circulars issued are complied with continuous reviewing and making recommendations to the Board on non compliance. The committee also reviewed the findings of the Internal Audit and the recommendations together with the management response and regularly followed up the progress of the implementation of such recommendations in order to enhance the overall control environment. The Audit Committee also assisted the Board to introduce and implement adequate internal control systems and suggest continuous improvements to systems.

The Internal Audit function of the Board was carried out by the Internal Audit Division. The committee reviewed the effectiveness of the Internal Audit plan to ensure that it has been designed to provide reasonable assurance that the financial reporting system adopted by the Board can be relied upon in the preparation and presentation of the financial statements.

The Audit Committee also reviewed the Report of the Auditor General and made necessary recommendations to the management of the Board to rectify the shortcomings highlighted in the Report.

Signed by

P.A.S. Panditharatne

Chairman

Audit Committee

Employees' Trust Fund Board

Financial Statements > 2012

Statement of Comprehensive Income

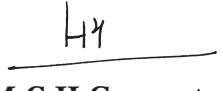
For the year ended 31st December

	Notes	2012 Rs.	2011 Rs.
INCOME			
Interest Income	4	13,324,819,872	12,416,540,323
Dividend Income	5	208,700,797	164,355,257
Net Loss on Financial Assets at FVTPL	6	(304,378,044)	(280,676,440)
Other Income	7	258,891,913	251,872,364
		13,488,034,538	12,552,091,505
EXPENSE			
Personnel Expenses	8.1	632,244,346	570,882,463
Operating Expenses	8.2	110,701,557	107,613,150
Financial Expenses	8.3	2,484,779	2,774,251
Member Expenses	8.4	289,908,491	294,181,876
Depreciation of Property and Equipment		20,877,992	20,303,987
Interest Paid on Current Year		118,220,400	108,106,649
Total Operating Expenses		1,174,437,564	1,103,862,376
PROFIT FROM OPERATIONS			
Income Tax Expenses	9	(165,648,658)	(141,008,314)
Profit for the Year		12,147,948,316	11,307,220,814
OTHER COMPREHENSIVE INCOME			
Net Gain/(Loss) on Revaluation of Assets		-	1,842,000,000
Net Gain/(Loss) on Held to Maturity Financial Assets		(269,065,066)	511,084,990
Net Gain/(Loss) on Available for Sale Financial Assets		-	7,000,000
Actuarial Gain/(Loss)		(1,275,517)	277,391
Other Comprehensive Income for the Year, Net of Tax		(270,340,584)	2,360,362,381
Total Comprehensive Income for the Year, Net of Tax before Appropriations		11,877,607,733	13,667,583,195

Certified as Correct


N W Wimalaweera
 DGM (Finance)


K M A Godawatte
 Chairman/CEO


M C H Gunaratne
 Additional General Manager

Statement of Financial Position

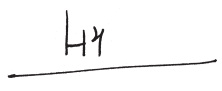
As at 31st December

	Notes	2012 Rs.	2011 Rs.	1 st January 2011 Rs.
ASSETS				
Cash and Cash Equivalent		414,830,531	366,615,131	265,992,240
Other Financial Assets Held-for-Trading	10	6,871,631,979	6,393,856,348	4,765,802,654
Financial Investments - Available-for-Sale	11	485,834,544	485,834,544	439,943,500
Financial Investments - Held-to-Maturity	12	135,407,687,030	120,212,461,978	106,129,045,597
Financial Investments - Loan & Receivables	13	7,234,690,204	7,137,288,683	7,263,920,182
Other Assets	14	4,451,654,278	4,322,080,322	4,911,487,835
Property and Equipment	15.1	188,241,276	164,972,841	151,745,341
Intangible Assets	15.2	717,470	1,002,291	1,401,501
Investment Property	16	3,200,000,000	3,200,000,000	1,358,000,000
Total Assets		158,255,287,312	142,284,112,140	125,287,338,851
LIABILITY AND EQUITY				
Current Tax Liabilities		109,797,276	71,710,608	194,499,444
Other Liabilities	17	156,894,176	301,475,525	167,771,087
Provisions	18	37,496,585	16,066,095	14,282,705
Total Liabilities		304,188,037	389,252,228	376,553,236
Total Equity	19	157,951,099,275	141,894,859,914	124,910,785,614
Total Liabilities and Equity		158,255,287,312	142,284,112,140	125,287,338,851

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

Certified as correct,


N W Wimalaweera
 DGM (Finance)


M.C.H. Gunaratne
 Additional General Manager

These financial statements approved and signed for on behalf of the Board.


K M A Godawatte
 Chairman/CEO

Statement of Cash Flows

For the year ended 31st December

	2012	2011
	Rs.	Rs.
OPERATING ACTIVITIES		
Proceeds from Sale of Financial Instrument Designated at FVTPL	1,029,949,105	1,518,180,111
Maturities of Financial Instrument Held to Maturity	100,176,683,956	94,344,963,816
Maturities of Financial Instrument Loan & Receivables	63,715,656	121,742,689
Payment for Purchase for Financial Instruments Designated at FVTPL	(1,854,540,832)	(4,027,741,947)
Payment for Purchase of held to Maturity Financial Instruments	(113,182,588,792)	(107,915,185,208)
Loan Granted for Acquire Loan & Receivable Financial Instrument	(60,763,735)	(48,140,191)
Interest Received	10,778,335,799	13,687,335,345
Dividend Received	208,635,789	164,355,257
Other Income Received	239,975,375	241,150,753
Operational Expenses Paid	(725,598,731)	(569,400,196)
Financial Expenses Paid	(2,484,779)	(2,659,355)
Member Expenses Paid	(281,208,655)	(190,584,105)
Income Tax Paid	(1,414,439)	(263,797,150)
Net Cash Flows from Operating Activities	(3,611,304,283)	(2,940,410,180)
INVESTING ACTIVITIES		
Purchase of Property and Equipment	(52,273,935)	(39,428,759)
Proceeds from Sale of Property and Equipment	2,920,040	3,056,019
Net Cash Flows from/(used in) Investing Activities	(49,353,895)	(36,372,740)
FINANCING ACTIVITIES		
Contribution Received	12,582,954,752	10,959,906,153
Refunds	(8,565,217,045)	(7,774,489,115)
Interest Paid	(118,332,167)	(108,305,783)
Year 5 Scholarship Payment/Refund	(75,844,266)	(73,374,449)
Higher Education Scholarship Payment/Refund	(3,096,000)	(20,064,000)
Net Cash Flows used in Financing Activities	3,820,465,274	2,983,672,806
Net Increase in Cash and Cash Equivalents	159,807,096	6,889,886
Cash and Cash Equivalents at 01 st January	255,023,435	248,133,550
Cash and Cash Equivalents at 31st December	414,830,531	255,023,435

Statement of Changes in Equity

For the year ended 31st December

01st January 2011

	Members Fund	Dividend Equalization Reserve	Revaluation Reserve	Retained Earnings	Total Equity
	Rs.	Rs.	Rs.	Rs.	Rs.
Prior Year Adjustments	119,852,873,251	4,000,000,000	1,313,730,470	(255,818,107)	124,910,785,614
Contributions Received during the Year	(1,082,778)	-	-	-	(1,082,778)
Refunds made during the Year	11,092,062,998	-	-	-	11,092,062,998
Interest on Members Fund	(7,774,489,115)	-	-	-	(7,774,489,115)
Dividend	3,695,080,931	-	-	(3,695,080,931)	-
Transfer to Dividend Equalization Reserve	8,621,855,505	-	-	(8,621,855,505)	-
Adjusted Profit for the Year	-	(1,000,000,000)	-	-	(1,000,000,000)
	-	-	-	12,307,220,814	12,307,220,814

Other Comprehensive Income

Net Gain/ (Loss) on Revaluation of Assets	-	-	1,842,000,000	-	1,842,000,000
Fair Value Adjustment of Units	-	-	-	-	-
Financial Investments Available for Sale	-	-	-	7,000,000	7,000,000
Net Gain/ (Loss) on Available for Sale Assets	-	-	-	-	-
Actuarial Gain / (Loss)	-	-	-	277,391	277,391
Net Gain/ (Loss) on Held to Maturity Financial Assets	-	-	-	511,084,990	511,084,990

31st December 2011

	135,486,300,792	3,000,000,000	3,155,730,470	252,828,652	141,894,859,913
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01st January 2012

Prior Year Adjustments	135,486,300,792	3,000,000,000	3,155,730,470	252,828,652	141,894,859,913
Contributions Received during the Year	(850,297)	-	-	-	(850,297)
Refunds made during the Year	12,745,270,261	-	-	-	12,745,270,261
Interest on Members Fund	(8,565,788,334)	-	-	-	(8,565,788,334)
Dividend	4,189,947,973	-	-	(4,189,947,973)	-
Transfer to Retain Earnings	9,776,545,270	-	-	(9,776,545,270)	-
Adjusted Profit for the Year	-	(2,000,000,000)	-	-	(2,000,000,000)
	-	-	-	14,147,948,315	14,147,948,315

Other Comprehensive Income

Actuarial Gain / (Loss)	-	-	-	(1,275,517)	(1,275,517)
Net Gain/ (Loss) on Held to Maturity Financial Assets	-	-	-	(269,065,066)	(269,065,066)
31st December 2012	153,631,425,664	1,000,000,000	3,155,730,470	163,943,141	157,951,099,275

Notes to the Statement of Comprehensive Income

For the year ended 31st December

Notes	2012 Rs.	2011 Rs.
4 Interest Income		
4.1 Financial Investments available for sale		
Interest on Promissory Notes - Vanik Incorporation	-	-
	-	-
4.2 Financial Investments Held to Maturity		
Interest on Fixed Deposit	64,295,443	1,783,507
Interest on Debenture	123,353,810	104,475,486
Yield on Treasury Bond	11,150,769,108	10,523,413,814
Margin on Treasury Bill	793,229,660	753,949,617
Interest on Repurchase Agreement	101,318,784	67,187,566
Interest on Money Market	1,424,914	1,049,987
Interest on Bonds - Power Project	400,101,716	277,630,549
Interest on Commercial Paper	6,433,071	-
	12,640,926,506	11,729,490,526
4.3 Financial Investments on Loans and Receivable		
Interest on Rupee Loan	587,000,000	587,000,000
Interest on Viyana Housing Loan	86,790,193	91,040,635
Interest on Distress Loans	476,615	367,080
Interest on Vehicle Loan	2,420,990	2,046,694
Interest on Special Distress Loan	4,250,431	3,897,679
Interest on Special Festival Loan	132,241	121,887
Interest on Computer Loan	9,925	6,545
Interest on Staff Housing Loan - SMIB	2,780,472	2,569,277
Interest on Sport Club Loan	32,500	-
	683,893,366	687,049,797
Total Interest Income	13,324,819,872	12,416,540,323
5 Dividend Income		
Investments Held for Trading		
Dividend on Shares - Quoted	187,059,350	135,417,855
Dividend on Units - Quoted	8,947,697	16,243,652
Investments available for Sale		
Dividend on Shares - Unquoted	12,693,750	12,693,750
	208,700,797	164,355,257

Notes to the Statement of Comprehensive Income

For the year ended 31st December

Notes	2012 Rs.	2011 Rs.
6 Net Gain/ (Loss) on Financial Assets at Fair Value through Profit or Loss		
<i>Financial Assets Designated at Fair Value through Profit or Loss</i>		
Profit on Sale of Quoted Shares	124,368,330	554,940,657
Fair Value Adjustment of Units	165,899,913	-
Fair Value Adjustment on Shares	(594,646,286)	(835,617,097)
	(304,378,044)	(280,676,440)
7 Other Income		
Property Income - Lease Rent	20,482,080	20,482,080
Profit on Sale of Property, Plant and Equipment	452,588	2,665,709
Surcharges	205,128,179	183,334,809
Income from Express Claims	13,381,000	10,908,000
Staff Loan Income	18,463,002	16,602,334
Write Back of Under/Over Paid Claim	949	-
Sundry Income	984,116	17,879,432
	258,891,913	251,872,364
8.1 Personnel Expenses		
<i>Staff Costs (Including Directors) Comprise:</i>		
8.1.1 Wages and Salaries		
Salaries	245,143,047	216,076,218
Director's Fees	529,500	379,500
Cost of Living Allowances	62,208,645	60,515,360
Overtime	16,986,225	14,092,107
Holiday Pay	10,171,463	8,613,844
	335,038,880	299,677,029
8.1.2 Short-Term Monetary and Non-Monetary Benefits		
Recruitment, Training & Development	996,766	1,693,013
Staff Welfare	16,847,846	18,353,944
Incentive	81,067,392	74,845,611
Encashment of Leave	9,045,013	8,094,217
Bonus	48,727,577	44,482,478
Reimbursement of Medical Expenses	36,952,477	29,687,036
Staff Loan Cost	18,463,002	16,602,334
Interest on Housing Loans	12,720,868	7,942,535
Employees' Accident Compensation Scheme	-	1,647,856
	224,820,940	203,349,024

Notes to the Statement of Comprehensive Income

For the year ended 31st December

Notes	2012 Rs.	2011 Rs.
8.1.3 Defined Benefit Plans		
Interest Cost	8,722,615	8,007,997
Current Service Cost	4,514,458	4,145,152
	13,237,073	12,153,149
8.1.4 Other Long-Term Employee Benefits		
E.P.F. Contribution	48,197,538	43,561,301
E.T.F. Contribution	9,639,228	8,712,918
	57,836,766	52,274,219
8.1.5 Other Staff Welfare Expenses		
P.A.Y.E. Tax	1,310,687	3,429,042
	1,310,687	3,429,042
Total Operating Expenses	632,244,346	570,882,463
Key Management Personnel Compensation		
Director's Fees	529,500	379,500
	529,500	379,500
8.2 Operating Expenses		
Building Rent	32,391,437	31,127,266
Rates	1,428,116	545,023
Electricity Charges	15,787,012	15,103,126
Telephone Charges	6,501,801	6,575,335
Water Charges	1,556,531	1,358,705
Consultancy Fees	1,717,061	1,214,500
Audit Fees	800,004	553,970
Security Charges	4,356,416	4,576,961
Legal Fees	907,342	876,214
Secretarial Expenses	300,000	300,000
Postage & Telegrams	2,144,107	2,072,960
Travelling & Subsistence	1,370,224	1,296,077
Printing & Stationery	1,108,191	1,097,001
IT Expenses	921,695	1,063,607
Advertisement & Press Notices	2,027,637	1,968,604
Vehicle Insurance & License Fees	2,477,969	2,227,346
Newspapers & Periodicals	527,119	599,525
Donations	213,420	853,440
Other Insurance	44,312	44,445
Office Upkeep & Requirements	504,664	648,448
Stamp Duty	1,475	10,260
Media & Publicity	162,086	-

Notes to the Statement of Comprehensive Income

For the year ended 31st December

Notes	2012 Rs.	2011 Rs.
Miscellaneous Expenses	1,877,417	2,821,828
Vehicle Repairs & Maintenance	9,978,497	11,073,083
Fuel Charges	14,375,808	11,795,724
Maintenance of Building	5,448,880	5,831,737
Maintenance of Machine & Equipment	1,772,336	1,977,967
	110,701,557	107,613,150
8.3 Financial Expenses		
Custodial Fee	235,200	235,200
Bank Charges	2,246,457	2,406,705
Bad Debts Written Off	-	103,484
Loss on Petty Cash	-	11,412
Release of Writing Back Claims	3,122	17,450
	2,484,779	2,774,251
Total Operating Expenses	745,430,682	681,269,865
8.4 Member Expenses		
8.4.1 Members Benefits		
Death Benefits Scheme	49,246,905	45,730,216
Permanent Disablement Scheme	5,681,376	5,473,887
I.O.L. Implanting Scheme	3,927,975	3,997,040
Sramasuwa Rekawarana Scheme	20,759,546	21,773,206
Heart Surgery Scheme	53,070,233	59,539,543
Kidney Transplant Scheme	1,119,956	1,573,873
Year 5 Scholarship Scheme	74,925,000	70,485,000
Higher Education Scholarship Scheme	23,604,000	23,640,000
	232,334,991	232,212,765
8.4.2 Members Services		
Postage & Telegrams	19,507,830	18,656,657
Printing & Stationery	9,973,719	9,873,009
Computer Stationery	4,044,244	4,070,408
Employees Awareness Scheme	235,077	438,765
Travelling & Subsistence	5,104,520	4,355,145
Media & Publicity	741,071	2,233,131
Medical Consultation for Members	21,000	23,200
Year 5 Scholarship Expenses	850,685	3,566,599
Deyatakirula Exhibition & CSR Project	3,123,761	4,602,203
	43,601,906	47,819,117

Notes to the Statement of Comprehensive Income

For the year ended 31st December

Notes	2012	2011
	Rs.	Rs.
8.4.3 IT Services		
Maintenance of Hardware	3,511,469	4,106,602
Maintenance of Software	317,353	146,925
Depreciation	5,987,572	5,906,173
Insurance	93,862	-
Rental on Leased Lines	4,061,338	3,990,294
	13,971,594	14,149,994
Total Member Expenses	289,908,491	294,181,876
9 Income Tax		
Net Tax Expenses	165,648,658	141,008,314
	165,648,658	141,008,314

Notes to the Statement of Financial Position

As at 31st December

Notes	2012 Rs.	2011 Rs.	1st January 2011 Rs.
10 Other Financial Assets Held-for-Trading			
Quoted Share Investment	8,134,626,575	7,228,104,571	4,718,542,735
Quoted Units	243,643,959	77,744,046	77,744,046
<i>Less:</i> Provision for Diminution in Value of Quoted Shares	(1,506,638,554)	(911,992,269)	(30,484,127)
	6,871,631,979	6,393,856,348	4,765,802,654
11 Financial Investments available for Sale			
Unquoted Share Investment	485,834,544	485,834,544	485,834,544
Promissory Notes	12,174,382	12,174,382	12,174,382
<i>Less:</i> Provision for Diminution in Value of Shares	-	-	(45,891,044)
Impairment on Promissory Notes	(12,174,382)	(12,174,382)	(12,174,382)
	485,834,544	485,834,544	439,943,500
Note			
The promissory notes are issued by Vanik Incorporation have a pending court case in the District Court of Colombo in order to wind up. Therefore this has recognized as available for sale financial asset and it was initially recognized as available for sale financial asset and it was initially recognized at fair value and subsequently also measured at fair value. The difference is charged to the other comprehensive income (OCI).			
12 Financial Investments Held to Maturity			
Treasury Bond	120,946,399,942	105,628,837,452	91,004,458,542
Treasury Bill	6,660,949,670	8,900,869,526	9,910,864,055
Debentures - Quoted	165,201,559	150,000,000	157,450,259
<i>Less:</i> Impairment on Debentures - Quoted	(7,450,259)	(7,450,259)	(8,950,259)
Fixed Deposit	2,550,200,000	300,200,000	1,000,000
Repurchase Agreement	1,327,091,000	1,300,555,000	1,140,723,000
Debentures - Unquoted	675,000,000	947,450,259	931,500,000
Commercial Paper	98,295,118	-	-
Bond Kerawalapitiya Power Project	2,992,000,000	2,992,000,000	2,992,000,000
	135,407,687,030	120,212,461,978	106,129,045,597
13 Financial Assets - Loans & Receivables			
Rupee Loans	6,100,000,000	6,100,000,000	6,100,000,000
Housing Finance - NDB Bank	770,881,334	765,861,991	839,464,490
Staff Loans			
Distress Loan	14,738,483	12,948,606	6,341,698
Special Distress Loan	111,430,984	78,492,221	127,814,928
Festival Advance	934,075	730,814	972,175
Special Festival Loan	881,810	842,994	550,100
Special Advance	3,620,945	2,814,475	3,652,000
Vehicle Loan	63,376,940	45,704,069	58,021,963

Notes to the Statement of Financial Position

As at 31st December

Notes	2012 Rs.	2011 Rs.	1st January 2011 Rs.
Computer Loan	259,291	247,403	-
SMIB Staff Housing Loan - Loan Staff	168,563,891	129,638,973	127,095,331
Loan-Tsunami Relief	2,450	7,135	7,497
	7,234,690,204	7,137,288,683	7,263,920,182

Note

The staff loans are measured at its fair value as per LKAS-39 using the comparable market rate. For the purpose of this valuation we have used a rate of 12% per annum as a yardstick to derive the fair value of the staff loans that is the rate the entity will offer to its best customer as at the loan granting date.

As per the direction issued by the Institute of Chartered Accountants of Sri Lanka the loan granted on or before 01st January 2011 is treated as fully settled on 01st January 2011 and new loan has been granted on the same date for the same amount.

14 Other Assets

Accrued Income

Interest Receivable	3,242,466,116	3,260,625,621	3,990,989,148
Less: Provision against Doubtful Income	(27,865,633)	(27,865,633)	(33,365,633)
	3,214,600,483	3,232,759,988	3,957,623,515

Receivable & Prepayments

Contribution Receivable	1,118,136,952	961,345,946	830,072,745
Money Order Control	3,785,984	-	-
Postal Franking Machine Imprest	166,768	234,293	96,249
Sundry Debtors	2,132,868	2,743,747	78,718,965
Dues from Ex-Employees	1,580,019	967,811	623,719
Security Deposits	2,972,189	2,926,800	2,790,300
Pre-payments	11,889,237	7,717,723	14,125,149
Pre-paid Staff Loan Cost	61,296,779	79,759,781	-
Advance Payments	488,850	2,775,634	1,621,307
Overpayment of Claims	-	2,280	2,280
Deposit - Summervill & Co.	21,900,000	21,900,000	21,900,000
Medical Advance	15,000	45,000	150,000
Sport Club	1,800,000	-	20
	1,226,164,645	1,080,419,015	950,100,734

Tax Recoverable

Tax Paid in Advance	3,951,562	3,968,000	-
	3,951,562	3,968,000	-

Others including Stocks of Stationery

Stocks of Stationery & Printing Materials	6,937,588	4,933,319	3,763,586
	6,937,588	4,933,319	3,763,586
	4,451,654,278	4,322,080,322	4,911,487,835

Notes to the Statement of Financial Position

As at 31st December

15.1 Property, Plant and Equipment

Cost	Land & Buildings	Motor Vehicles	Fixtures and Fittings	Computer Equipment	Furniture & Other Equip.	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance at 1st January 2011	20,000,000	110,979,263	15,809,800	120,108,473	45,251,615	312,149,151
Additions	8,357,423	17,164,384	-	8,077,361	5,829,591	39,428,759
Disposals	-	(4,442,675)	-	(999,506)	(694,703)	(6,136,884)
Revaluations	-	-	-	-	-	-
Balance at 31st December 2011	28,357,423	123,700,972	15,809,800	127,186,328	50,386,503	345,441,026
Balance at 1st January 2012	28,357,423	123,700,972	15,809,800	127,186,328	50,386,503	345,441,026
Additions	19,330,155	19,430,000	-	6,449,410	7,064,371	52,273,935
Disposals	-	(6,563,800)	-	-	(613,409)	(7,177,209)
Revaluations	-	-	-	-	-	-
Balance at 31st December 2012	47,687,578	136,567,172	15,809,800	133,635,738	56,837,465	390,537,752
Accumulated Depreciation						
Balance at 1st January 2011	-	57,628,327	14,929,742	62,119,233	25,726,508	160,403,810
Depreciation charge for the Year	-	15,010,770	252,497	6,982,256	3,565,426	25,810,949
Disposals	-	(4,299,905)	-	(855,020)	(591,649)	(5,746,574)
Balance at 31st December 2011	-	68,339,192	15,182,239	68,246,469	28,700,285	180,468,185
Balance at 1st January 2012	-	68,339,192	15,182,239	68,246,469	28,700,285	180,468,185
Depreciation charge for the Year	-	15,345,066	180,591	7,199,644	3,855,441	26,580,742
Disposals	-	(4,242,067)	-	-	(510,384)	(4,752,451)
Balance at 31st December 2012	-	79,442,191	15,362,830	75,446,113	32,045,342	202,296,476
Net Book Value						
At 1 st January 2011	20,000,000	53,350,936	880,058	57,989,240	19,525,107	151,745,341
At 31 st December 2011	28,357,423	55,361,780	627,561	58,939,859	21,686,218	164,972,841
At 31 st December 2012	47,687,578	57,124,981	446,970	58,189,625	24,792,122	188,241,276

Notes to the Statement of Financial Position

As at 31st December

Notes	2012 Rs.	2011 Rs.	1st January 2011 Rs.
15.2 Intangible Assets - Computer Software			
At beginning of period	1,002,291	1,401,501	3,232,004
Amortization	(284,821)	(399,210)	(1,830,503)
At end of period	717,470	1,002,291	1,401,501
16 Investment Property			
At beginning of period	3,200,000,000	1,358,000,000	1,358,000,000
Change in Fair Value	-	1,842,000,000	-
At end of period	3,200,000,000	3,200,000,000	1,358,000,000
17 Other Liabilities			
Defined Benefit Obligation	90,119,163	79,296,500	72,799,970
<u>Accounts payable and Sundry Creditors</u>			
Sports Club	-	1,220	-
Retained Tax on Claims & Benefits Paid	3,751,289	5,133,956	4,589,382
Stamp Duty Payable on Claims	451,320	407,570	386,445
Unpaid Emoluments	21,913	114,775	116,683
Stamp Duty Payable on Salaries	72,975	62,325	54,600
Superintendent of EPF	9,009,022	8,327,287	7,278,381
Sundry Creditors	23,297,357	67,651,660	39,916,592
Unclaimed Refunds	5,149,573	4,575,055	3,555,679
Underpayment of Claims	-	3,229	3,229
Unpaid Death Benefits	7,573,889	7,017,309	6,699,317
P.A.Y.E. Tax	770,924	2,703,710	118,709
Retained W.H.T	-	-	544,561
VAT	208,992	208,992	209,228
VAT Withholding Provisions	-	-	174,085
N.B.Tax	34,760	34,760	53,753
Unclaimed Scholarship	2,367,110	2,451,941	1,774,791
Returned Benefit	13,905,162	11,749,478	11,485,846
Salary Deductions Clearance	160,727	144,062	151,146
<u>Bank Overdraft</u>			
People's Bank C/A 149	-	6,534,623	17,858,690
People's Bank C/A-249	-	102,145,699	-
Commercial Bank C/A-800	-	2,911,374	-
	156,894,176	301,475,525	167,771,087

Notes to the Statement of Financial Position

As at 31st December

Notes	2012 Rs.	2011 Rs.	1st January 2011 Rs.
Defined Benefit Obligation			
Opening Defined Benefit Obligation 01 st January	79,296,500	72,799,970	-
Interest Cost	8,722,615	8,007,997	-
Current Service Cost	4,514,458	4,145,152	-
Benefit Paid	(3,689,927)	(5,379,228)	-
Actuarial (Gains) / Losses on Obligations	1,275,517	(277,391)	-
Closing Defined Benefit Obligation 31 st December	90,119,163	79,296,500	72,799,970
18 Provisions			
Provision For Audit fee	2,350,004	1,550,000	4,042,549
Provision For Telephone	46,180	179,059	59,213
Provn. for Employees' Accident Compensation Scheme	2,000,000	2,000,000	2,000,000
Provision for Bonus	5,428	341,312	149,222
Provision for Leave Encashment	7,846,571	6,895,144	6,570,000
Provision for Postage	1,164,401	1,524,580	1,461,721
Provision for Higher Education Scholarship	24,084,000	3,576,000	-
	37,496,585	16,066,095	14,282,705
19 Equity and Reserves			
Member Fund as at 01 st January	135,486,300,792	119,852,873,251	103,057,082,969
Less: Contribution & Interest Paid- Previous Year	850,297	1,082,778	227,982
	135,485,450,495	119,851,790,473	103,056,854,987
Net Contribution Received during the Year	4,179,481,927	3,317,573,883	3,479,032,347
Add: Interest on Member Fund 3 %	4,189,947,973	3,695,080,931	3,196,076,620
Dividend 7 %	9,776,545,270	8,621,855,505	10,120,909,297
Member Fund as at 31st December	153,631,425,664	135,486,300,792	119,852,873,251
Reserves			
Retained Profit	14,130,436,383	12,569,765,088	13,061,167,810
Dividend Equalization Reserve	3,000,000,000	4,000,000,000	4,000,000,000
Transferred to Retained Earnings	(2,000,000,000)	(1,000,000,000)	-
Revaluation Reserve	3,155,730,470	3,155,730,470	1,313,730,470
Equity and Reserves	171,917,592,517	154,211,796,350	138,227,771,531
Less: Interest on Member Fund Balance 3.0 %	4,189,947,973	3,695,080,931	3,196,076,620
Dividend 7.0 %	9,776,545,270	8,621,855,505	10,120,909,297
Equity and Reserves	157,951,099,275	141,894,859,914	124,910,785,614

Notes to the Financial Statement

Entity Reconciliation of Equity 01st January
2011 (Date of Transition to SLFRS)

	Previous GAAP	Remeasurements	SLFRS/LKAS
	Rs.	Rs.	Rs.
Cash and Cash Equivalent	265,992,240	-	265,992,240
Long-term Investment	103,068,479,306	(103,068,479,306)	-
Short-term Investment	15,818,389,708	(15,818,389,708)	-
Stocks of Inventories & Printing Materials	3,763,586	(3,763,586)	-
Account Receivables	5,232,179,942	(5,232,179,942)	-
Other Financial Assets held-for-Trading	-	4,765,802,654	4,765,802,654
Financial Investments available for Sale	-	439,943,500	439,943,500
Financial Investments held to Maturity	-	106,129,045,597	106,129,045,597
Financial Assets - Loans & Receivables	-	7,263,920,182	7,263,920,182
Other Assets	-	4,911,487,835	4,911,487,835
Property, Plant and Equipment	1,511,146,843	(1,359,401,501)	151,745,341
Intangible Assets - Computer Software	-	1,401,501	1,401,501
Investment Property	-	1,358,000,000	1,358,000,000
Total Assets	125,899,951,625	(612,612,775)	125,287,338,850
Liabilities and Equity			
Provisions	158,159,293	(143,876,588)	14,282,705
Accounts Payables	285,894,576	(285,894,576)	-
Bank Overdraft	17,858,690	(17,858,690)	-
Other Liabilities	-	362,270,531	362,270,531
Members Fund	119,852,873,251	-	119,852,873,251
Reserve	5,585,165,815	(527,253,452)	5,057,912,363
Total Liabilities and Equity	125,899,951,625	(612,612,775)	125,287,338,850

Notes to the Financial Statement

Entity Reconciliation of Total Comprehensive Income for the year ended 31st December 2011

Income	Notes	Previous GAAP Rs.	Remeasurements Rs.	SLFRS/LKAS Rs.
Investment Income		13,126,827,076	(164,355,257)	12,962,471,819
Dividend Income		-	164,355,257	164,355,257
Profit on Sale of Quoted Shares	1	-	(554,940,657)	(554,940,657)
Income on Staff Loan	2	-	9,009,162	9,009,162
Other Income		243,816,462	8,055,902	251,872,364
Net Gain/(Loss) on Financial Assets and Liabilities at FVTPL		13,370,643,538	(818,552,033)	12,552,091,505
Expense				
Operational/Personnel/Finance Expenses	3	(699,470,956)	(2,102,895)	(701,573,851)
Member Expenses		(294,181,877)	-	(294,181,876)
Interest Paid on Refund		(108,106,649)	-	(108,106,649)
Total Operating Expenses		(1,101,759,482)	(2,102,895)	(1,103,862,376)
Profit from Operations		12,268,884,056	(820,654,928)	11,448,229,129
Income Tax		(141,008,314)	-	(141,008,314)
Net Income		12,127,875,742	(820,654,928)	11,307,220,815
Other Comprehensive Income				
Net Gain/(Loss) on Revaluation of Assets		-	-	1,842,000,000
Net Gain/(Loss) on Held to Maturity Financial Assets		-	-	511,084,990
Net Gain/(Loss) on Available-for-sale Financial Assets		-	-	7,000,000
Other Comprehensive Income		-	-	277,391
Other Comprehensive Income for the Year, Net of Tax		-	-	2,360,362,381
Total Comprehensive Income for the Year, Net of Tax		-	-	13,667,583,195

Note 1 - Profit on sale of Quoted Shares of Rs.554,940,657/ =

Note 2 - Interest income on staff loan of Rs.9,009,162/ =

Note 3 - Reversal of over provision of gratuity of amounting Rs 14,499,439/ = & fair value adjustments of Staff Loan of (Rs. 16,602,334.06)

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 01st 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 03 % 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, 2012 were authorized for issue in accordance with resolution of the Board of Directors on 27th February 2013.

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.

An explanation of how the transition to SLFRSs has affected the reported financial position, financial performance and cash flows of the company is provided in notes.

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 First - time Adoption of Sri Lanka Accounting Standards (SLFRS / LKAS)

For periods up to and including the year ended 31st December, 2011, ETF Board prepared its financial statements in accordance with, Previous Financial Reporting Framework.

The financial statements as of 31st December, 2012 and the comparatives have been prepared under Sri Lanka Accounting Standards (SLFRS / LKAS). These Sri Lanka Accounting Standards (SLFRS / LKAS) are in line with the International Accounting Standards. This is the first time that the board has prepared financial statements under Sri Lanka Accounting Standards (SLFRS/LKAS). In preparing these financial statements, ETF Board's opening statement of financial position was prepared as at 01st January, 2011, which is considered as the ETF Board's date of transition to Sri Lanka Accounting Standards SLFRS / LKAS).

Exemptions Applied

SLFRS 1 *First-Time Adoption of Sri Lanka Financial Reporting Standards* allows first-time adopters certain exemptions from the retrospective application of certain SLFRS.

The entity has applied the following exemptions:

- **Leases (SLFRS 1 D9)**
SLFRS 1 allows a first-time adopter to determine whether an arrangement existing at the date of transition to SLFRS contains a lease on the basis of facts and circumstances existing at that date.
- **Employee Benefits — (SLFRS 1.D10)**
A first-time adopter with unrecognized actuarial gains or losses in accordance with previous GAAP may elect to recognize all cumulative actuarial gains and losses of all employee benefit plans at the date of transition to IFRS. This is the case even if it uses the corridor approach for later actuarial gains and losses.
- **Designation of Previously Recognized Financial Instruments (SLFRS 1.D19)**
SLFRS 1 provides an exemption that permits a first-time adopter to designate financial assets and liabilities as at fair value through profit or loss or as available-for-sale at the date of transition to SLFRS.

1.5 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.

1.6 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.

1.6.1 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.

1.6.2 Dividend Income

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

1.6.3 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.

1.7 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.

1.8 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.

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.

1.9 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.

1.10 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.

1.11 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.

1.12 Intangible Assets

1.12.1 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.

1.13 Leasehold Properties

1.13.1 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.

1.14 Inventories

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

1.15 Retirement Benefit Cost

1.15.1 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 03 % of gross emoluments of employees to the Employees' Provident Fund and to the Employees' Trust Fund respectively.

1.15.2 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

1.17 Taxation

1.17.1 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.

1.18 Equity

1.18.1 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.

1.18.2 Dividends

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

1.19 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

Employees' Trust Fund Board

Report of the Auditor General > 2012

Report of the Auditor General for the year 2012



විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம் **AUDITOR GENERAL'S DEPARTMENT**



මගේ අංකය
எனது இல.
My No.

} EL/D/ETF/FA/12

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

} 17th February 2014

Chairman,
Employees' Trust Fund Board.

Report of the Auditor General on the Financial Statements of the Employees' Trust Fund Board for the year ended 31st December 2012 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 2012 comprising the financial position as at 31 December 2012 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 in 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards.

Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and 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. 10 of 1980 give 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 qualified 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 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 31st December 2012 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 Board had not revalued its Fixed Assets amounting to Rs. 188,241,276 once in 3 or 5 years, according to section 34 of Sri Lanka Accounting Standard No. 16, to ascertain whether a material difference between the carrying value of the assets and its fair value.

2.2.2 Contributions not credit to Member Accounts

Although the financial statements disclosed that Rs. 153,631,425,664 as the balance of the Members' Fund as at 31st. December 2012, the amount actually credited to member accounts was Rs. 143,079,139,946. The amount received and not credited to the member accounts as at that date was Rs.10,552,285,718. Out of this amount Rs. 4,099,849,873 had been received

during past period of about 32 years, although which had not been credited to the member accounts even as at 31st December 2012, and the balance of Rs. 6,452,435,845 was the interest amount that would have been credited to member accounts from time to time. An age analysis of the contributions not accounted are given below.

Age analysis of Contributions received but not credited to Member Accounts	Contributions still not accounted (Rs.)
01 to 05 years	2,170,507,917
05 to 10 years	824,534,055
10 to 15 years	417,178,073
15 to 20 years	226,346,967
20 to 25 years	240,248,355
25 years and above	221,034,506
Total	4,099,849,873

“The details of membership for which payments are made monthly, are being received by the Board monthly and once in 6 months and the accounts are being updated on the 28th. February, in the ensuing year. The reasons for the delay in updating member accounts are due to non submission of employee details as well as the details provided are also not in clear state, difficulty in appropriation due to payments made by one cheque for several entities, details could not be obtained for previous periods due to change of management, the problems over names of estate workers and details regarding the inactive members for whom the contributions have made etc. are being affected to non accounting of contributions to member accounts and till the contributions to be accounted for time to time being not credited to the accounts, the interest also not being credited to the member accounts” was the reply of the Chairman of the Board.

2.2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The balance in the unclaimed death benefit account commencing from the year 1995 had increased to Rs. 7,573,890 and the balance in the unclaimed refunds account commencing from the year 2001 had increased to Rs. 13,905,162 in the year under review, which had been shown under liabilities. The Chairman of the Board in reply to this had intimated that “there had been instances where many claimants than one claimant when a death of the 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 benefit account until the determination of the correct beneficiary and the payment of Rs. 391,744 had been made to 5 beneficiaries during the year 2013. Out of the balance of the unclaimed refunds account Rs. 3,257,115 had been paid during the year, after confirming the correctness of bank accounts of the claimants.”
- (b) Action had not been taken to settle the increasing balance of Rs. 5,149,573 commencing from the year 2001 in the unclaimed refunds account, as at 31st.

December 2012. The Chairman of the Board had stated in his reply that, "out of this balance, 22 claimants had been paid Rs. 468,728 in the year 2013 and although the payments had been made to the claimant by cheques and this balance shows the value of un-presented cheques issued to the claimants."

- (c) There had been an un-recovered balance of Rs. 61,770, out of vehicle loan over paid to an officer of the Board in the previous year.
- (d) There had been an amount to be recovered from 18 officers who had left the services ranging from 1 to 12 years amounting to Rs. 260,281 as at 04th October 2013.
- (e) An amount of Rs. 1,218,909 was outstanding as at 04th October 2013, which had been received as contributions by money orders had to be recovered as arrears due to a delay in Postal Department.

2.2.4 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 audit.

Reference to Laws, Rules, Regulations and Management Decisions

Non Compliance

- (a) Section 1.1.6 and 2.3 of Public Administration Circular No. 22/99 of 08th October 1999

An amount of Rs. 4,108,740 had been incurred on fuel for the private travelling of 9 officers of the Board in contrary to these regulations.

- (b) Public Enterprises and Public Administration Circulars.

Public Enterprises Circular No. 130 of 18th March 1998 & Public Administration Circular No. 26/47 of 19th November 1997 and Section 19 of minutes of COPE meeting held on 18th November 2011.

Although it had been stated that not to grant loans to the employees of Public Corporations and Statutory Boards on the interest rate of 4.2%, 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 to be recovered granted on the above rate of interest were Rs. 413,101,257 as at 31st December 2012 .

- (c) Public Enterprises Department Circular No. 12 of 06th June 2003.

- (i) Section 8.7

An amount of Rs. 1,310,687 had been paid to Commissioner General of Inland Revenue as PAYE without recovering from the officers on the employment income for the year 2012.

- | | |
|---|---|
| (ii) Section 9.12 | Although the approval of Department of Public Enterprises and General Treasury had to be obtained for the welfare programmes introduced by the Board, an amount of Rs. 16,847,846 had been incurred on welfare projects implemented by the Board during the year under review without such approvals. |
| (d) Public Finance Circular No. PF/PE 05 of 11 th January 2000 and Section 16 of minutes of Committee on Public Enterprises meeting held on 18 th October 2011. | An amount of Rs. 81,067,392 had been paid as incentive during the year under review without the approval of General Treasury. It had been informed to correct these activities at the relevant COPE Meeting. |
| (e) Management Services Circular No. 47 of 22 nd December 2011. | A sum of Rs. 48,727,577 had been paid as bonus in contrary to the section 1 and 2 of this circular and if bonuses are being paid deviating from the provisions of section 8 of the circular, whereas the approval should be obtained from the Cabinet of Ministers, the Board had not been acted accordingly. |
| (f) Financial Regulations (FR) of Democratic Socialist Republic of Sri Lanka | |
| (i) FR. 104 | Reports on losses regarding the 45 vehicle accidents had not been submitted to the Auditor General. |

2.2.5 Lack of Evidence for Audit

Reports of the physical verifications confirming the value of the fixed assets amounting to Rs. 390,537,752 as at 31st December 2012, had not been submitted to the audit.

2.2.6 Transactions not supported by adequate Authority

The following observations are made.

- (a) The approval of the Ministry of Finance or the General Treasury had not been obtained even up to the end of the year under review for the financial procedure manual implemented from the year 1999 on the approval of the Board of Directors. Certain matters included in this procedure manual were outside the provisions in the establishment code of Democratic Socialist Republic of Sri Lanka, financial regulations and circular instructions.
- (b) An amount of Rs. 6,236,582 had been incurred on supply of uniforms to the employees while this had been implemented since 1993 without obtaining the approval of General Treasury. Thus the amount spent on uniforms during the last 5 years without such an approval had been amounting to Rs. 36,575,879.

3. Financial and Operating Review

3.1 Financial Results

The operations of the Board for the year under review had resulted in a surplus of Rs.12,147,948,316 compared with the corresponding surplus of Rs.11,307,220,814 for the preceding year. Accordingly, the increase in the surplus for the year under review as compared with the preceding year amounted to Rs.840,727,502. The reasons for the increase in surplus in the year 2012 were due to increase in interest income, dividend income and net present value adjustments etc.

3.2 Analytical Financial Review

Following observations are made.

- (a) The benefit percentage declared to members for the year remained unchanged at the rate of 10 percent, although the surplus for the year under review had been increased by 7.44 % compared to the previous year. The benefit percentage paid during the year 2008 to 2012 are given below.

Year	2012	2011	2010	2009	2008
Benefits paid to Members	10 %	10 %	12.5 %	13 %	12 %

- (b) Entitlement of the members of the Fund, total contributions and variances in the cumulative value of interest in 05 years.

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

Year	Total contribution	Cumulative interest	Members' Entitlement
	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

As per the above information the total entitlements of the members of the fund were 47 % of the contributions as at the year 2012, while 53 % was the cumulative interest. Whereas the relative growth of total entitlements of the year 2012 has increased by 13.39 % relatively to the 2011, and the growth of the contribution increased by 13.61 % during the year

4. Operating Review

4.1 Performance

4.1.1 Operating Performance

(a) Status of performance as at the end of the year 2012 as shown below.

Description	Actual Number	Number Relating to the Performance of the Fund	Percentages Thereto
Employment of Private and Semi Government Sector Employees	3,832,840	2,200,000	57.40 %
Employers	227,612	70,194	30.84 %
No. of Member Accounts of the Fund (Millions)	9.8	2.2	22.45 %

An adequate programme had not been prepared to enrol and facilitate 2,593,151 self employed persons to the fund as at the end of the year 2012. “There would be a special development programme to be implemented at the end of the year 2013 to enroll the self employed persons to this Board through the Regional Office net work, and there would be a hindrance to the development of enrollment activities as the contributions had to be paid on their own consent at the time of enrollment” was the reply of the Chairman of the Board.

(Source: Report of the Central Bank of Sri Lanka)

(b) The information regarding the scholarship awards implemented during last 5 years by the Employees’ Trust Fund Board are as shown below;

Year	No. of Active Members Contributed To the Fund	No. of Members Got Scholarships on behalf of Students	Cost of 5 year Scholarships Rs.	Cost of Advance 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

Attention had not been focused on a programme for enhancing the education of the children of the under privileged members of the fund until the year under review, although the Board had been awarded scholarships to limited students of 22,128 out of total membership of 2,200,000 during the last 5 years.

4.1.2 Investments and Investment Income

The investments amounting to Rs.135,099 million as at the beginning of the year under review had increased to Rs.150,000 million as at the end of the year after adjustments for purchases and maturities.

The following observations are made in this connection.

(a) Investments in short term Repos

An approximate income of Rs. 12,011,821 had been lost by the Board not receiving the interest paid to Treasury Bills of 364 days for the year 2012, on an investment of 500,000,000 in a certain state bank in 2006 for the services providing to the Board on a long term agreement entered into by both parties stating an investment in short term repo. In replying to this the Chairman of the Board had stated that, "the 500,000,000 investment had been renewed as fixed deposits in March and August 2013 in denominations of Rs. 10 million and Rs. 490 million on the rates of 15 % and 12 % respectively.

(b) Investments in Share Market

The following observations are made regarding the investment of Rs. 8,620,461,119 made on 115,385,085 shares as portfolio 1 and 2 as at 31.12.2012.

- (i) An amount of Rs. 8,013,793,452 had been invested in 107,312,668 shares of 83 listed companies in the share market as portfolio 1 and 2 as at 30th. June 2013. The market value of the amount of Rs. 6,333,036,059 invested in 83,036,582 shares of 68 companies had been reduced by Rs. 1,468,648,382 to Rs. 4,864,387,677.
- (ii) There had been a slight recession in share market in the year 2012 and the decrease of income from share market investments in the year 2012, compared to the years 2010 and 2011 had been as follows.

Year	No. of Companies	No. of Shares	Invested Amount As at 01st/ Jan Rs.	Investment Income Received Rs.	Rate of Income %
2010	116	41,549,265	2,719,879,864	1,308,502,652	48.1
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

If, these funds would have been invested in Treasury Bills of Central Bank of Sri Lanka in the year 2012, based on the income receivable, the estimated loss of income on this investment would have been Rs. 577,580,453. In replying, the Chairman of the Board had stated that, “There had been instances where the higher return had been gained as share market transactions have gone up and the return on investment in share market would be higher as well as the risk also higher and the return would have considered in long term.”

- (iii) The Board had not been received any return in 2012 for Rs. 226,125,038 invested in 13,046,750 shares of 25 companies as portfolio 1 and 2. The details of companies where no return had been gained in which Board had invested during last 3 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

- (iv) Despite the recession in share market prices and decrease in income on investments continuously, 23,240,912 shares had been newly purchased from 42 quoted companies amounting to Rs. 1,810,894,725 in the year 2012 and as at 30th June 2013, the market value of newly purchased 8,030,618 shares from 26 companies to the value of Rs. 879,359,901 had been decreased by Rs. 248,609,303.
- (v) The Board had invested Rs. 485,834,544 in 3 unquoted companies to purchase 4,067,500 shares. The details of income received and rate of income of those 3 companies in the years 2011 and 2012 are as follows.

Company	Investment Rs.	2011		2012	
		Income Rs.	Rate %	Income Rs.	Rate %
1	14,248,606	No	–	No	–
2	625,000	93,750	15	93,750	15
3	470,960,937	12,600,000	2.67	12,600,000	2.67
Total	485,834,544	12,693,750	2.61	12,693,750	2.61

The total annual income percentage of these unquoted companies had been 2.61%. No income had been received from a company for the investment of Rs.14,248,606 for the years 2011 and 2012. As these shares could not be traded in the share market, a risk had been prevailed in receiving capital gains or the amount invested.

- (vi) The following observations are made on the revision of Investment Policy Statement on 1st December 2012, which was implemented since September 2006.
- Instead of implementing directly involved by the Board and approve according as empowered the Board by section 8 (a) and (c) of the Employees' Trust Fund Act No. 46 of 1980, it had been observed that under the section 4.1 (b) of September 2006 and section 4.2 (a) xi in Investment Policy Statement of December 2012, the delegation of authority to staff for the speculative motive of share market transactions may be questionable.
 - Instead of sections allowing sale of shares and units at a loss as per the annexure "A", it should have been stated that the concurrence of the General Treasury and on the approval of the Board of Directors, that the shares could only be sold at a loss, wherever the section in this policy statement, that the shares and units could be sold at a loss will be observed as problematic statement. Shares of a certain company had been sold at a loss of Rs. 16,249,168 under the approval of this policy statement.
- (vii) Either the other income whatsoever or the capital investment of Rs. 29,239,855 could not be recovered nearly from the year 2000, due to the two companies which had been liquidated where Rs. 25,227,541 had been invested in 624,570 shares and a quoted company which was delisted where Rs. 4,066,314 had been invested in 178,700 shares.
- (viii) The investment made in 06 companies amounting to Rs. 93,074,734 which had not been dealt in the capital market activities during the period of 1 ½ years to 14 years as at 31st December 2012 since this investment had not been traded in the share market, capital gains also could not be achieved.
- (ix) Although the sum of Rs. 5,204,377,279 invested in share market as at 01st January 2011 had been increased to Rs. 7,713,996,715, the capital gains received on sale of shares during the year under review had been reduced by Rs.430,572,328 compared to the previous year as percentage of 77.6 %.
- (x) Out of the amount of Rs. 7,228,104,572 invested in 104 companies as portfolio 1 and 2 as at 01st January 2012, Rs. 5,539,965,503 or 76.64% had been invested in 22 companies. The following observations are made in this regard.

The income received for the total investment made on those 22 companies had been 4.28 %, while excluding 6 companies, the income received from other 16 companies had been very low such as 0.17 % to 4.28 %. In reply to this the Chairman of the board had stated that, "The rate of income achieved was very low due to non receipt of capital gains."

- (c) Action had not been taken to recover interest on investments amounting to Rs. 27,854,580 receivable for more than 10 years on investments made in debentures and promissory notes in 02 companies even as at 30th June 2013. The Chairman of the Board had stated in his reply that, “The amount could not be recovered as one company had been faced for financial difficulties and the other company was under litigation.
- (d) The Board had been invested Rs. 10,000,000 to purchase 1,000,000 units in a certain unit trust fund in 1997 and no return had been received from the year of purchase of this investment up to the year under review. However, if this investment had been made in treasury bills only for the year 2012, the estimated income would have been Rs. 1,169,000.

4.2 Management Inefficiencies

The following observations are made.

- (a) The value of unutilized staff uniforms as at the end of the year had been Rs.2,183,775 due to purchases made without identifying the correct requirement. Action had not been taken to dispose the uniform stocks coming from the year 2008 up to the year under review.
- (b) Without obtaining a Government valuation, a vehicle purchased in 1998 for Rs.2,090,600 had been disposed for Rs. 832,000, calling public quotations. At the time of sale of this vehicle the market value of this vehicle had been determined as Rs.1,300,000 according to a valuation obtained from a private valuation company.

4.3 Operational Inefficiencies

- (a) Rs. 21,900,000 shown under the receivables in the accounts of the Board as a deposit which had been paid on a court order to a certain company without referring to Attorney General, on a breach of an agreement and as a result of an appeal, the said company had submitted a bank guarantee for the same amount. The court had not come to a final decision over this appeal as at 30th June 2013 and the recovery of this amount had been doubtful as the payment had been made on an un-favourable litigation.

4.4 Identified Losses

- (a) Three vehicles of same brand which were purchased at Rs. 4,473,200 in June 2009 and nearly 3 year period of time had been sold for Rs. 1,901,000 calling tenders, on a valuation of Rs. 1,900,000 obtained from a private institution. The loss on this sale was Rs. 363,590.

4.5 Expenditure Contrary to Objects

A loan of Rs. 2,000,000 had been granted to the Sports Club of the Board, without approval of General Treasury and a contractual bond, during the year under review.

4.6 Un authorized Transactions

Intimating 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 days wage, the cost of overtime for the year 2012 had been Rs. 16,986,225. 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 to 21 days leave entitlement for a year and had been allowed for 5 working days per week.

4.7 Resources which had been given to other Government Organizations

A Cab bearing No. PB -1089 valued to Rs. 6,189,922 belongs to the Board had been attached to Presidential Secretariat without a proper transfer according to the section 8.3.9 of Public Enterprises Circular No. PE/D/12 dated 06th.June 2003 and schedule 9 of the appendix 502 (2) 11 of Financial Regulations and Rs. 384,578 had been spent on repairs and services of that vehicle which was at the Presidential Secretariat during the year 2012. An expenditure of Rs. 646,868 had been incurred during last year even the vehicle was at the Presidential Secretariat.

4.8 Build up a Fund for the Employees Gratuity Provisions

Action had not been taken to invest Rs. 90,119,163 in the Gratuity Provision account as at the end of the year under review in a separate fund.

4.9 Vehicle Utilization

Action had not been taken to recover a loss of Rs. 214.665 occurred due to accidents of 2 vehicles of the Board during the year under review from the responsible parties or insurance and the expenditure estimates for 3 vehicle accidents also had not been prepared.

5. Accountability and Good Governance

5.1 Procurement Plan

Except for cost to be expected to incur for Head Office complex, there had been a variance of 50 % between the actual cost of purchase and total cost of procurement plan. Therefore, it is observed that such plans for future cash flows are un productive.

5.2 Internal Audit

Internal Audit had not been functioned to cover all the areas of the Board according to section 133(2) of Financial Regulations.

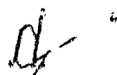
5.3 Budgetary Control

Attention had to be focused on utilization of budget as productive management control tool as the considerable variations had been observed when compared to actual and budgeted expenditure of the Board.

6. Systems and Controls

The deficiencies observed during the audit had been informed to the Chairman of the Board subsequently and special attention is needed in respect of the following areas of control.

- (a) Accounting.
- (b) Amounts receivable and payable .
- (c) Amendments to the Act.
- (d) Investments.



H. A. S. Samaraweera
Auditor General.

Observations of the Board with regard to the Report of the Auditor General

2. Financial Statements

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

Since the Board is maintaining property, plant and equipment only for the administrative purposes, it is stated, that the cost of handling a revaluation compared to the revaluation benefit would not be a productive transaction. However, according to Sri Lanka Financial Reporting Standards, property, plant and equipment had to be revalued, if they could be materially affected to financial statements and as we observe that the fair value of the assets utilized by the Board are not frequently changed, the necessity would not be arisen for the revaluation of assets promptly as per the Section 34 of the Sri Lanka Financial Reporting Standards.

2.2.2 Contributions not credit to Member Accounts

Noted.

2.2.3 Accounts Receivable and Payable

- (a) Noted
- (b) Noted
- (c) This amount is being recovered from the monthly salary of the relevant officer.
- (d) The arrears of amounts recoverable from the employees who left the Board services are being recovered from them and the guarantors of the loans.
- (e) Noted

2.2.4 Non Compliance with Laws, Rules, Regulations and Management Decisions etc.

- (a) The amount stated in the report as fuel expenses is not the private travelling of these officers and the total travelling expenditure of these officials incurred on travelling for the relevant year.

The vehicle utilization for the official purposes by the officers of the Board are in accordance with the Public Enterprises Department Circular No. 50 of 28th July 2008 of the Ministry of Finance.

As per the circular the monthly fuel allocation of the officers are as follows.

	Petrol Rs.	Diesel Rs.
Chairman	20,000	14,000
Working Director / General Manager	18,000	12,000
Deputy General Manager	15,000	10,000
The other officers entitled to this facility (Assistant General Managers)	12,500	8,000

Any excess usage by the officers exceeding allowance will be charged from their monthly salary.

- (b) Board of Directors has decided to reduce the rate of interest to 4.2 % on 20.01.1998 for the loans granted by the Board as per the instructions prevailed at that time. Accordingly, the loans had been released to employees of the Board based on that board approval at the rate of 4.2 % and the loans released to employees on the above rate of interest are being recovered from monthly salaries of employees with interest.
- (c) (i) Pay As You Earn (PAYE) tax payable on employment income of the employees is being borne by the Board on the approval of the Board of Directors since April 2007.
- (ii) Supply of uniforms annually and supply of tea to staff daily in the morning/evening are the main expenditure items incurred as welfare expenses. While the supply of tea had been started as a welfare activity since the inception of the Board, the supply of uniforms to the staff implemented since 1993 with the approval of Board of Directors within the approved limits of financial authority. Accordingly, these facilities were available during the year under review with the approval of Board of Directors.
- (d) The monthly incentive payment implemented since 1992 on the approval of the Board of Directors was continued for the year 2012 on the same basis and it could not be discontinued as this facility is enjoyed by the employees since the year 1992.
- (e) The annual bonus for the year 2012 had been paid to employees based on the Management Services Department Circular No. 49 of 24th December 2012 and not based on the Management Services Department Circular No. 47 of 22nd December 2011. Prior approval of the Cabinet of Ministers need to be obtained, if a certain bonus payment would have been paid deviating the provisions in section 3.4 of this circular. The bonus had been paid to employees of the Board as per section 1.1 of the circular based on the payment made in the year 2011, with the prior approval of Board of Directors. Hence, it could not be agreed with your comment in the report.
- (f) The losses on vehicles accidents relevant to the years 2011 and 2012 had been submitted to the Auditor General.

2.2.5 Lack of Evidence for Audit

Action had been taken to submit a physical verification report confirming the fixed assets for the year 2012.

2.2.6 Transactions not supported by adequate authority

- (a) The Procurement Procedure part of this Financial Procedure Manual had been approved by the Board Directors and the draft for the balance part also already finalized and would be submitted to the approval of Ministry of Finance with the approval of Board of Directors.
- (b) With the approval of the Board of Directors a scheme of supply of uniforms to staff had been implemented since the year 1993. Since the Board of Directors had approved this as staff welfare and the uniforms for the staff for the year 2012 had also been supplied accordingly. The Board of Directors approved this scheme absolutely as a welfare activity for the employees.

3. Financial Review

3.1 Financial Results

The interest income as well as the dividend income had been increased due to productive investment strategies while net assets had also been increased due to the Accounts of the Board had been prepared in accordance with new Accounting Standards (SLFRS). Accordingly the income of the year 2012 had been increased by Rs. 840,727,502 when compared to the year 2011.

3:2 Analytical Financial Review

- (a) Agree with the observations.
- (b) Agree with the observations.

4. Operating Review

4.1 Performance

4.1.1 Operating Performance

- (a) The employers registered in Employees' Provident Fund and all the employers who maintain private provident funds also contribute to this fund monthly on behalf of their employees. Although the report stated the number of employers as 227,612, the employers should only be contributed to this fund if they employed an employee. Accordingly as at the end of July 2013, 71,444 employers are being contributed to this fund.

A methodical programme is being implemented to enroll self employed persons to this fund through the Regional Office net work scattered over the island. Special programme is being implemented to enroll all the self employed persons attached to Sri Lanka Samurdhi Authority and Milco Company to this fund. Accordingly, a special improvement would be expected at the end of this year. However, it would be hindrance to the development of the fund as the self employed persons had to pay contributions at their own consent.

- (b) At present the membership of this fund had been exceeded 22 million. The expenditure would be massive if a benefit scheme be implemented to enhance the education facilities to children of all the members of the fund. The Board could not bear such a massive expenditure.

The Board is obliged to credit a dividend and an interest to each and every member account at the end of the year as per the Employees' Trust Fund Act No.46 of 1980. Thus a considerable level of interest and a dividend could be paid only on the availability of sufficient for investments. Therefore, base on the various requirements and facts, it is viable to continue with present benefits scheme available for members.

4.1.2 Investment and Investment Income

- (a) Investments in Short-Term Repos

It was agreed to invest Rs. 500 million at a rate of 0.25 % less than the 12 month Treasury Bill interest rate as a condition of the special services rendered by that state bank to the Board.

However, the said investment had been renewed as one year fixed deposit and the bank had agreed to offer the rate of interest for fixed deposit prevailed on that date.

Accordingly the details of the investment is as follows.

Date of Renewal of Investment	Date of Maturity	Amount Rs.	Annual Rate of Interest (%)
19.03.2013	19.03.2014	10,000,000	15.0
19.08.2013	19.08.2014	490,000,000	12.0
Total		500,000,000	

- (b) Share Market Investments

- (i) Then market value of the shares invested in quoted companies as at 30th 2013 amounting to Rs. 6,767,995,192.40, while the amount invested was Rs.7,984,499,597.37 (excluding the delisted and liquidated companies). Therefore the unrealized loss on investment was Rs. 1,216,504,404.97. The sales and purchases had been actively made during the years 2010 and 2011 under the favourable situation prevailed in the share market. Due to the share market declined in the years 2012 and 2013 relatively to the years 2010 and 2011, the

cost of shares purchased earlier had been higher than the market value. This is a volatile situation and the unrealized loss would be lesser when the share market condition turn to upward trend.

- (ii) The income in the share market is higher as well as the risk also higher and the return should be considered in long term basis. As an Institutional Investor, the Board has identified it is an essential responsibility to participate actively in the share market in order to earn higher profits in developed share market having confidence over local and foreign investors. It had been decided to invest a maximum 6% of the total investment in share market and had gained higher return under the upward trend in share market condition.
- (iii) To mitigate the risk in share market investments, the investment in shares had been diversified by investing in more companies since the return is higher as well as the risk also higher. It could not be expected return from all the companies in every year.
- (iv) Agree with the observation.
- (v) The First Capital Treasuries, Fitch Ratings and Lanka Salt Limited are the companies mentioned in the report. Dividends of Rs. 8.7 million and Rs. 16.2 had been received respectively in the years 2012/2013 and 2013/2014 from First Capital Treasuries Company and Rs. 174.8 million worth of dividends had already been received from this investment to date. In addition to that Rs. 30 million had been earned as capital gains in 2010 by selling shares of this company. An attractive dividend percentage had been paid by Fitch Rating Company in the years 2011 and 2012 relatively to the other companies. While the net asset value of Lanka Salt Limited had been increased to Rs. 686 million at the end of the year 2012, it is an increase of Rs.216 in compared to the invested amount of Rs. 470 million and in our view there would be no risk about the recovery of the invested amount. However, the amount had been invested considering the significant status of this institute in the national economy.
- (vi) An Investment Policy had been introduced to the board in 2002 and it had been comprehensively prepared in 2006 and 2012. This investment policy had been approved by the directors inclusive of experienced professionals in investment and financial field. The procedures to be followed in the purchases and sale of investment had been introduced by this investment policy statement and staff are given authority to implement them. Ultimately all these investing transaction are being implemented under the approval of senior management inclusive of Additional General Manager, Chairman and the Board of Directors.
- (vii) The calling of the court case of liquidated Korea Ceylon Footwear Limited had been scheduled to 25.04.2014 and the appeal against the court order of the Magpec Limited had not still been called. Veyangoda Textile Limited had been delisted from the share market and further information is still being searched.
- (viii) The 06 companies mentioned in the report are Siera Cables, Raigam Wayamba, Hotel Services, Dialog, Lanka IOC and Richard Peries. Out of these companies the shares in Lanka IOC had been sold and earned capital gains in 2013. The

shares in the other companies expected to be sold and earned capital gains in future.

- (ix) The reply given in paragraph 4.1.2 (b) (ii) also relevant to this.
 - (x) Although the dividends from all the companies mentioned in the report had been received, the income percentage had been decreased as capital gains could not be received for all the companies due to prevailed market prices. The profit as well as loss had to be borne according to the nature of share market. However, when the favourable conditions are prevailed in the share market, it is expected to earn capital gains from these companies.
- (c) Agree with the observations.
- (d) 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 of is Rs. 96.93 which was purchased at Rs.10.00 and the unrealized profit is Rs. 86.93.

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.

4.2 Management Inefficiencies

- (a) There was a system to order the uniforms including the requirement for expected new requirements up-to the year 2010. Since these new recruitments had not been made as expected due to various reasons, excessive stocks were remained. The value represent the total stock ranging from the year 1993 to 2010.

Although the quotations had been called from the internal staff to dispose these uniform stocks, there was no favourable response. Therefore, it is planned to call public quotations to dispose these uniform stocks quickly. However, from 2011 stocks are ordered only on the identifying of uniform requirement, and no excessive stock are remained.

- (b) Peugeot Vehicle No. 300-8679

The internal quotations had been called from the staff to dispose the Peugeot motor car bearing No. 300-8679 which was used for 14 years and vehicle was in running condition at that time. At the time of submitting for the approval of Board of Directors after examining the prices quoted, as the vehicle was not in running condition it had to be parked and kept. As a result 08 bidders had removed their price quotations. The price quoted in 09th bidder was very low compared to the valuation. As per request of the Board of Directors, a public quotation had been published in the news papers and the disposal had to be determined to the highest bidder. Since the vehicle was corroded due to not running for about three months, written down value of the vehicle was very low and to minimize the loss keeping the vehicle not in running condition, the vehicle had been sold for Rs. 832,000.

4.3 Operational Inefficiencies

Since a huge capital gain of Rs. 256.4 million had been earned (64.36 % p.a) over the selling of 10,200,000 shares purchased on 19.06.1997 of Mathurata Plantation Company for Rs. 478 million had been sold on 17.04.1998 less than even in one year, and therefore this transaction as per our opinion would not be an operational inefficiency.

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 Court the above company has deposited a bank guarantee worth of Rs.21.9 million in the courts.

The Supreme Court Case No. SC/SH/20/2003 filed by the board will be called on 22.09.2014.

4.4 Identified Losses

The 03 vehicles referred in the report had been determined to sell due to the high maintenance cost had been incurred due to frequent breakdowns and high fuel consumption etc. Accordingly a valuation report had been obtained from M/s. Lanka Automobile Association, a reputed firm of vehicle examiners and valuers and the vehicles had been disposed on calling tenders for Rs. 1,901,000 which was a higher price than the value of Rs. 1,900,000 as per valuation report.

4.5 Expenditure in Contrary to Objects

A holiday resort had been built up in Palatupana for welfare of the members of the Sport Club which was established by staff members of the Board and the Board of Directors had approved a loan of Rs. 2,000,000 to satisfy a fund requirement of the Sports Club. This loan is being recovered in installments with the interest of 10 % determined as per the market rate of interest prevailed at the time of granting of the loan.

4.6 Unauthorized Transactions

Since the payment for the Board employees are based on the Shop & Office Act provisions, the rates applied on the payments for the overtime and holiday pay had been made in accordance to the said act.

4.7 Resources which had been given to other Government Organizations

The vehicle bearing No. PB-1089 had been returned to the Board by the Presidential Secretariat during September 2012. This expenditure had been incurred on repairs and maintenance of the vehicle during the months of January and September 2012. The total amount incurred on the repairs of the vehicle had been claimed from the Insurance Corporation of Sri Lanka.

4.8 Build up of a Fund for the Employees' Gratuity Provision

The obligation of the Board on gratuity provision for the employees had been estimated by a Certified Actuarial Valuer according to new Sri Lanka Accounting Standards/Sri Lanka Financial Reporting Standards and a Treasury Bond to the value of the obligation had been reserved as an asset.

4.9 Vehicle Utilization

The amount receivable on all the vehicles accidents for the year under review had been claimed from the insurance companies. Reason for the observation in audit query is the timing difference.

5 Accountability and Good Governance

5.1 Procurement Plan

The Procurement Plan for the ensuing year is being prepared after a comprehensive study of Head Office and Regional Offices of the Board. However, for the total estimate of procurements will not be incurred because of the priority is given to member services and the fund allocation for investments. Since the priority is given to essential goods and services items, some procurement items will be carried forward to the following year. According to this favourable variance, it is apparent that a good cost control is operating in the Board.

5.2 Internal Audit

The following pre audits are being handled by the Inter Audit Division.

- Checking of normal refund claims.
- Checking of special refund claims.
- Checking of applications for 5 year scholarships and advanced level scholarships.
- Fund releases for Viyana Housing Loans and Staff Housing Loans of State Mortgage & Investment Bank.
- Checking of Staff Medical Bill Reimbursements.
- Checking of staff leave for the payment of annual bonus.
- Checking of balance annual leave.
- Checking of amounts to be paid at the termination of employment.

In addition to the above, audit of Regional Offices, checking of contributions and surcharge receipts of the board, checking of cash book, updating member accounts, investments and annual board of survey, physical cash verification, checking of final accounts, calculation of dividends and interest, preparation of member account statements etc. had been done during the year 2012 and copies of all audit reports had been submitted to the Auditor General.

5.3 Budgetary Control

The income of the Board could have been increased by 7.6 % than the budgeted income in the year 2012 utilizing optimum income earning strategies and the variance of operational cost could have been maintained at a level of 0.6 % . And also the budgeted variance of net profit of the Board could have been maintained at a favourable level of 3.9 % . Therefore, we believe that the Board had been maintained a good budgetary control.

6. Procedures & Controls

Financial Statements of the Board form the year 2012 had been prepared in accordance with the Sri Lanka Financial Reporting Standards.

Consensus of the Committee of National Labour Consultancy had been received for the proposed amendments to the Employees' Trust Fund Act and it had been referred the Ministry of Finance for further actions



K M A Godawatte

Chairman / Chief Executive Officer
Employees' Trust Fund Board.