

**EMPLOYEES' TRUST FUND BOARD**

# ANNUAL REPORT

**2014**



# EMPLOYEES' TRUST FUND BOARD

Annual Report 2014

© Employees' Trust Fund Board



Kalawa Group

## *Layout and Design*

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## *Ministry of Finance and Planning*



## *Employees' Trust Fund Board*

### **Annual Report 2014**

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# Corporate Profile



The Employees' Trust Fund was established on 1st March 1981 under the provisions of ETF Act No. 46 of 1980. The Fund is administrated by the Employees' Trust Fund Board and at present the ETF Board is functioning under the Ministry of Finance and Planning. The provisions of the Act shall apply to every state & private sector undertaking belonging to any class or category of state or private sector undertaking as is specified in an order made by the Hon. Minister and published in the Gazette. Self-employed persons and migrant workers also could contribute to the Fund on their own and obtain membership. At present the active membership of the fund is approximately 2.4 Million and covered by 72,145 employers. The value of the members fund was about Rs. 194 Billion as at 31st December 2014. To decentralize the ETFB activities and to provide a better service to its members the ETFB introduced a Branch Network in 1995.

## The Objectives of The Board

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



# ANNUAL REPORT 2014

EMPLOYEES' TRUST FUND BOARD

## BOARD OF DIRECTORS

*The Board of Directors of the Employees' Trust Fund as  
at the end of 2014 was as follows:*

|  |   |
|--|---|
| <b>Mr. K M A Godawatte</b><br>Chairman/CEO<br>Appointed by the Minister of Finance       | <b>Mr. G. Tissakuttiarachchi</b><br>Working Director<br>Appointed by the Hon. Minister of Finance |
| <b>Mr. P.A.S. Panditharatne</b><br>Director<br>Appointed by the Hon. Minister of Finance | <b>Mr. U.S. Abeyratne</b><br>Director<br>Appointed by the Hon. Minister of Finance                |
| <b>Mrs. G.L.D. Dahanayake</b><br>Director<br>Trade Ministry Representative               | <b>Mr. C.L.K.P. Jayasuriya</b><br>Director Representative<br>Employers' Federation of Ceylon      |
| <b>Mr. Ranjith Hettiarachchi</b><br>Director<br>Trade Union Representative               | <b>Mrs. K.M.A.N. Daulagala</b><br>Director<br>Appointed by the Hon. Minister of Finance           |
| <b>Mrs. Deepa Weerasooriya</b><br>Board Secretary  |   |

## SENIOR MANAGEMENT

|   |  |
|---|--|
| <b>Mr. K.M.A. Godawatte</b><br>Chairman/CEO               | <b>Mr. G. Tissakuttiarachchi</b><br>Working Director |
| <b>Mr. J.M.S.B. Udugama</b><br>Additional General Manager |  |

## DEPUTY GENERAL MANAGERS

|                              |   |
|------------------------------|---|
| <b>Mrs. R.N. Gnanasekera</b> | <i>(Investment)</i>                           |
| <b>Mr. J.M.S.B. Udugama</b>  | <i>(Collection &amp; Employer Relations)</i>  |
| <b>Mr. W.S. Dissanayake</b>  | <i>(Member Services)</i>                      |
| <b>Mr. L.H. Nihal</b>        | <i>(Administration &amp; Human Resources)</i> |
| <b>Mr. K.S. Weliwita</b>     | <i>(Internal Audit)</i>                       |
| <b>Mr. N.W. Wimalaweera</b>  | <i>(Finance)</i>                              |

## ASSISTANT GENERAL MANAGERS

|                                 |  |
|---------------------------------|--|
| <b>Mr. C. Mallikarachchi</b>    | <i>(Member Accounts)</i>               |
| <b>Mr. H.M. Seneviratne</b>     | <i>(Member Services)</i>               |
| <b>Mr. W. Sooriyarachchi</b>    | <i>(Enforcement) - Region i</i>        |
| <b>Mr. A.J.M.S. Jayasundara</b> | <i>(Enforcement) - Region ii</i>       |
| <b>Mr. M.S. Dissanayake</b>     | <i>(Enforcement / Self Employment)</i> |
| <b>Mr. M.A.K. Aluthgamage</b>   | <i>(Finance)</i>                       |



## Our *Vision*

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





## *Our Mission*

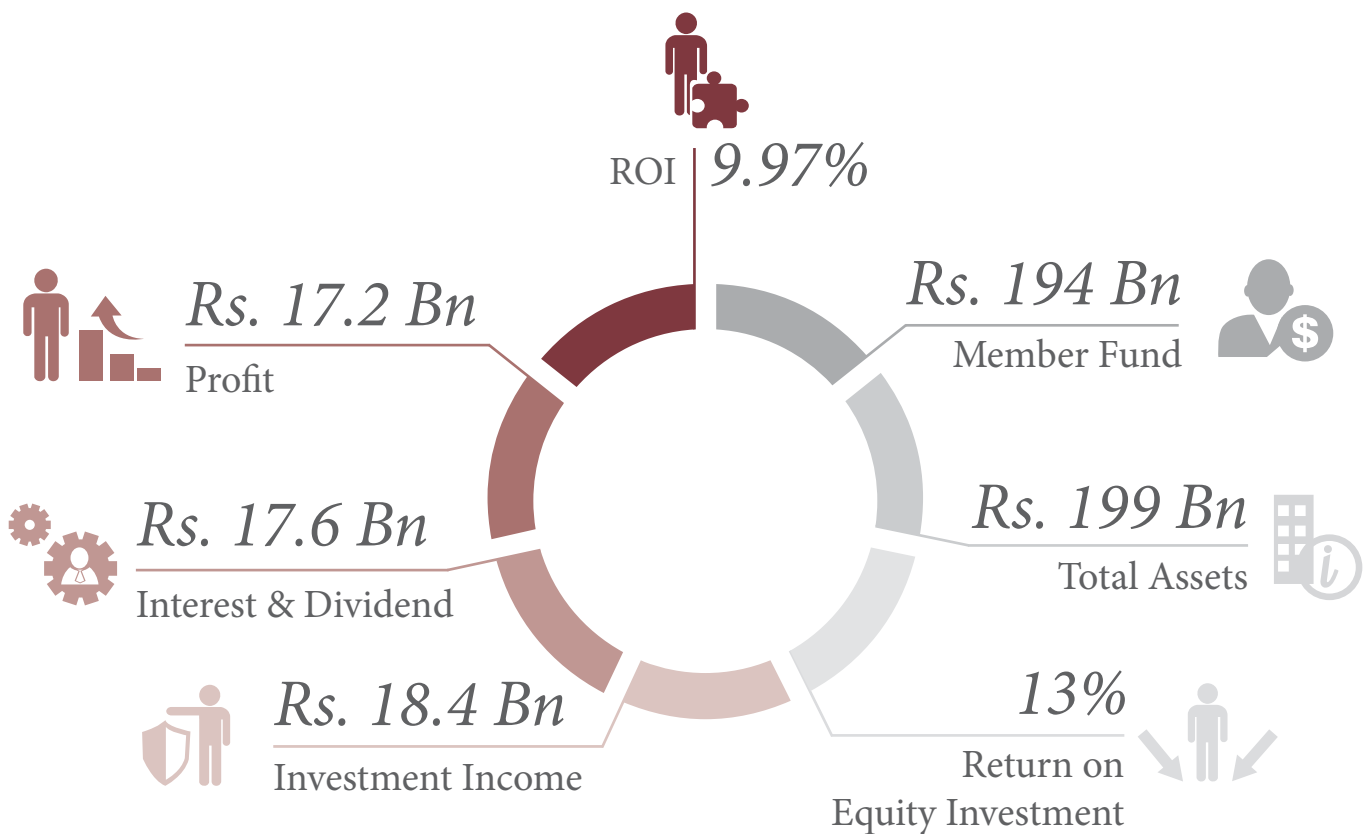
Be the most caring and Prudent Trust  
Providing a wide Range of Financial  
Member Benefits and Excellent Customer  
Services.

## *Corporate Values*

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

# FINANCIAL HIGHLIGHTS

2014



# FINANCIAL REVIEW

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

Investment Income grew by Rs.2.4 billion to Rs.18.4 billion in 2014 when compared to Rs.16 billion in 2013. Profit before tax increase to Rs.17.2 billion from Rs.15.1 billion in 2013.

The ETFB had a total asset value of Rs.199 billion as at end of December 2014, and has about 12.0 million accounts, of which, about 2.4 million are active. The ETFB had 74,276 employers contributing to the fund as at 31st December 2014. Total Contribution increased to Rs.15.9 billion in 2014 from Rs.14.4 billion in 2013 while refunds made to members increased to Rs.13.9 billion in 2014 from Rs. 9.5 billion in 2013.

The net contribution decreased by 59 percent to Rs.1.9 billion during the year 2014. Total Assets of the ETFB increased by 11.5 percent to Rs.199.1 billion as at end of December 2014. The members fund in the ETFB increased to Rs.194 billion in 2014 from 174 billion in 2013.

# MILESTONES

From 1981 to 2014



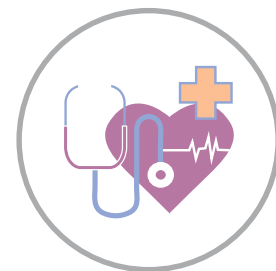
**Death Benefit Scheme**  
(Rs.100,000/=)

1986

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



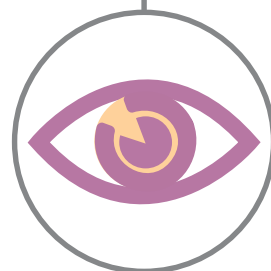
1989



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

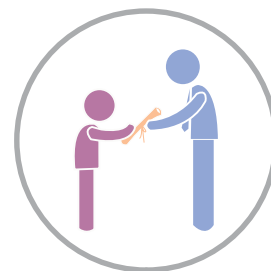
1991

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



1992

**Year 5 Scholarship**  
(Rs.15,000/= - 7,000 Scholarships)  
Death Benefit Scheme  
Permanent Disability Scheme  
Financial Assistance for Heart Surgery  
Reimbursement of Intra-ocular lens



1994



**Financial grant for children of  
ETF members who passed GCE (A/L) - 5,000  
Scholarships of Rs 12,000/- each annually.**

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



**“Viyana” Housing Loan Scheme**

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

1997

2002

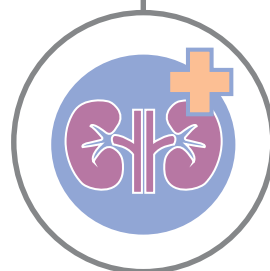
2006

2010

- “Shramasuwa Rekawarana”  
Hospitalization Scheme: Rs 25,000/- per year  
Maximum Rs 50,000/- for life time.**
- Death Benefit Scheme
  - Permanent Disability Scheme
  - Financial Assistance for Heart Surgery
  - Reimbursement of Intra-ocular lens
  - Year 5 Scholarship



- Financial Assistance  
from Kidney Transplant Surgery  
(Rs.150,000/=)**
- Death Benefit Scheme
  - Permanent Disability Scheme
  - Financial Assistance for Heart Surgery
  - Reimbursement of Intra-ocular lens
  - Year 5 Scholarship
  - “Shramasuwa Rekawarana”
  - Hospitalization Scheme
  - “Viyana” Housing Loan Scheme





# ORGANIZATION REVIEW

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

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

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

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

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

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

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

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



# CORPORATE GOVERNANCE

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

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

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

## The Board

The Company is headed by an effective Board who are responsible in the stewardship of the enterprise on behalf of the Government and its stakeholders.

## Board Composition

### The Board comprises of Nine Directors including:

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

The Corporate Governance practices are initiated at all levels in Employees' Trust Fund Board through its Vision, Mission, and Corporate Values, Corporate Goals and Objectives and by written procedure and policies in Financial Administration and IOR, Investments, Procurements etc.

The Board of Directors is responsible to ensure that the ETF Board is conducted its affairs efficiently and effectively in line with Government Policies. This is achieved whilst protecting resources, maintaining proper accounts, ensuring that accurate

# Role of the Board of Directors

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

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

## Appointment to the Board

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

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

## Chairman

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

rendering maximum input in his specialized areas of knowledge while refraining from engaging in operational activities. He also encourages all directors to pay a proactive role in managing the enterprise.

## Board Secretary

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

## General Manager and the Senior Management

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

## Financial Reporting

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

## Annual Audit

The Annual Audit of the Board is conducted by the Auditor General. The External Auditor is precluded from providing consultancy or any other services to the company that might compromise its impartiality and independent judgment on its audit of the enterprise.

## Board Committees

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





## MESSAGE OF THE PRESENT CHAIRMAN

*31st December 2014, total capital value of the Fund was increased to Rs.199 billion.*

Employees' Trust Fund, (ETF) one of the two major social security programmes available for the masses of working people in Sri Lanka was established on March 1, 1981. This is implemented for the benefit of the employees of the private sector and those public officers who do not receive pensions as a non-contributory social security programme. Although, the employees could receive the benefits of Employees' Provident Fund on the basis of retirement, the benefits of this fund can be obtained once in five years on termination of employment. There are 10 types of welfare benefits schemes are available to its members to facilitate the health and housing requirement and financial assistance to the children of the members for education. Employees' Trust Fund is the only social security programme available in Sri Lanka which provides multiple benefits to its members.

The goal of the Fund is to promote the members in investment with a view to improve their quality of life. In addition, members are paid the balance available in the account along with dividends and interest upon termination/ retirement. The members were paid 10% interest and dividends in 2014.

At present there are about 24 million active members of the Fund and it maintains about 12.5 million member accounts. There are 74,276 employers who contribute 3% to the Fund for their employees. By 31st December 2014, total capital value of the Fund was increased to Rs.199 billion.

Self-employed persons and expatriate employees can obtain the membership of the fund on voluntary basis. The employees of the informal sector also could benefit immensely from this fund. A special feature of the fund is that these employees are also entitled for all 10 systems of benefits.

Significant growth in all sections of the ETF board was observed in 2014. A notable growth has shown in the collection of contribution, return on investment and income on surcharges. Rs. 17,072 million profits after tax was earned in 2014 and 10% interest and dividend were credited to the accounts of members.

Functions of the Board have been decentralized to 17 divisional offices throughout the country. Operational activities of the Fund are performed more efficiently and effectively with use of information and communication technology.

The total strength of the staff at present is 900 and I am pleased to state that they all perform very efficiently with full dedication and team spirit to achieve the goals of the Fund. I take this opportunity accord a special appreciation to all members of the staff who work hard and provide a commendable service to the working mass of the country.

### **Mahinda Madihahewa**

*Chairman/ Chief Executive Officer  
Employees' Trust Fund Board*

# REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2014

**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 2014.**

**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 33 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 2014. Some achievements are highlighted below.

1. The total Contributions from employers for the year was Rs. 15.9 Billion which was an increase of Rs. 1.4 Billion than the previous year.
2. The total Investment income was Rs.18.5 Billion during the year compared to Rs.16.2 Billion in 2013 showing an increase of Rs. 2.3 Billion while the value of the investment portfolio increased from Rs.168 Billion to 186 Billion at the end of the year.
3. The Board earned a net profit of Rs. 17.1 Billion compared to Rs. 15.4 Billion in the previous year while Rs. 17.6 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.199 Billion at the end of the year.
5. The income on equities during the year was Rs. 1,107 Million compared to Rs. 353 Million during 2013. The increase was due to marginal improvement of the Share market activities in 2014.
6. With the increase of the investment income earned during the year 2014 we were able to declare a total rate of 10% to our members at the end of the year as interest and dividend for 2014. (See Graphs 1 & 2) This was an attractive rate compared to the rates offered by Banks/Financial Institutions to its customers. A further Rs.142 Million is available in the Dividend Equalization Reserve.
7. The operating expenses of the Fund which was 5.28% in 2013 decreased to 5.15% during the year 2014. The Board has maintained the operating expenditure level as expected. (See Graph 3)
8. The Regional office network continued to function effectively during the year with special attention focused on recovering of outstanding contributions and surcharges and legal dues. The decentralization of claims payment in the Gampaha, Kandy and Matara Regional offices also continued successfully.
9. In addition, processing of claims commenced from the Kurunegala Office in 2013 while action is been taken to commence this operation from Badulla in 2014.
10. The new Regional office established in Jaffna in November 2010 showed encouraging progress during 2013 with increased contributions appr. 8 Million per month by employers due to more awareness.
11. The updating process of all Member accounts were carried out successfully during the year and succeeded in completing 98% of the backlog during the year. The complicated cases are being cleared at present. Arrangements had been made to send the Annual Member statement (AMS) to all active Members up to year 2013.
12. Enrolment of Self employed members continued to be given high priority during the year. The enrolment programme of Self-employed persons who have started small-scale business projects after obtaining loan facilities from Samurdhi Banks was estimated to enroll about 10,000 members through the Samurdhi Bank network. Further, constant contact was made with Dairy farmers, Pre-School teachers, Construction industry technicians, Artists, Three Wheeler Drivers for more enrolment, totaling 33,000 Members and total contribution received for 2013 is Rs. 26 Million.
13. Human Resources development continued to be a major priority during the year such as exposing of all levels of staff for training programmes /seminars/workshops to upgrade their skills, attitudes and knowledge which were continued during the year. Trade Union members were also given the opportunity for training in the related fields.
14. The Industrial relations between the Management and Trade Unions continued to be cordial and healthy while such relationships greatly assisted in the progress made by the Board in all functional areas during the year.

# PRINCIPAL ACTIVITIES

The Principal activities  
of the Board continued  
as follows during 2014.

## Employer Contributions and Members Fund

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

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

A total of 2,042 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 2014 had increased to 74,276. Similarly, the total contributions received from the employers in respect of their employees during 2014 was Rs. 15.9 Billion compared to Rs. 14.4 Billion in 2013. (See Graph 4) Further, the value of the Member's Fund increased from Rs. 153.6 Billion to Rs.174.3 Billion at the end of the year under review. (See Graph 5)

## Member Benefits and Welfare Benefits

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

Additionally the Member Services Section is responsible for providing information to the members


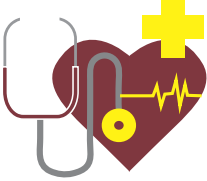



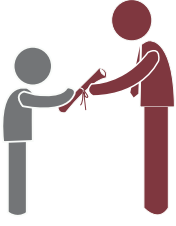




regarding their rights and benefits from the Fund. It also provides awareness to Employers of their responsibility in making timely remittances of contributions on behalf of their members. Such work is carried out frequently by organizing various awareness programs at the requests of institutions, trade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

During 2014, 183,928 refund claims were processed and the total amount paid was Rs. 13.9 Billion. Comparatively during 2013, 152,766 Claims were processed and the value was Rs 9.6 Billion. During the year the average amount paid per claim increased to Rs 63,480 from Rs 59,126/- in the previous year. (See Graph 6) The outflow on claim payments showed a marginal increase during the year. During 2014, 11,122 special benefit claims were processed and the total amount paid was Rs 318 Million. Comparatively during 2012, 10,880 claims were processed and the value was Rs 232 Million. Rs 85 Million was deposited in People's Bank in year 2014 on behalf of the 5,665 children of members who had passed the Year Five Scholarship Examination. (See Graph 7)

Rs.19.6 Million had been paid to 1,718 Children of ETF members who had passed the GCE (A/L) Examination in year 2014, as assistance for their higher education.

Rs.132 Million was released in year 2014 to the NDB Bank on behalf of Viyana Housing Loan scheme to facilitate 95 members to obtain housing loans.

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

|   |  |   |
|---|--|---|
|    | Life Insurance   | 1. Automatic Life Insurance Benefits: Maximum Rs. 100,000/-   |
|    | Heart Surgery  | 2. Financial Assistance for Heart Surgery: Maximum Rs 150,000/-   |
|    | Kidney Transplants   | 3. Financial Assistance for Kidney Transplants: Maximum Rs 150,000/-  |
|    | Permanent Disability   | 4. Total & Permanent Disability Benefits: Maximum Rs 200,000/-  |
|   | Intra-Ocular Lens  | 5. Reimbursements of cost of Intra-Ocular Lens: Rs 18,000/- for both eyes   |
|  | Year 5 Scholarships  | 6. Financial awards for Year Five Scholarship holders (Children of ETF Members) - 7000 Scholarships of Rs 15,000/- each annually. |
|  | “Shramasuwa Rekawarana” Hospitalization                          | 7. “Shramasuwa Rekawarana” Hospitalization Scheme: Rs 25,000/- per year Maximum Rs 50,000/- for life time.                        |
|  | “Viyana” Housing Loan  | 8. “Viyana” Housing Loan Scheme with concessionary rates of interest.   |
|  | Year 5 Scholarships (Children of Permanent Disability members)   | 9. Year Five Scholarships for children of ETF members who had to terminate employment due to permanent disability.                |
|  | Financial grant for children of ETF members who passed GCE (A/L) | 10. Financial grant for children of ETF members who passed GCE (A/L) - 5,000 Scholarships of Rs 12,000/- each annually.           |

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

## Maintenance of Member Accounts

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

The total number of active and inactive accounts of the fund as at the end of the year was approximately 12.4 Million. The fund maintains member accounts for all the active and inactive members.

11,518,322 member accounts were updated up to year 2013 as at 31-12-2014 and it is approximately 96% of the total estimated number of member accounts. Out of these accounts 9,244,288 were inactive while 2,274,034 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. 168 Billion to Rs.186 Billion in 2014 which an increase of 11% over the previous year.

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

A major portion of the portfolio amounting to 162 Billion (88.7%) was invested in Government Securities and Rs. 6 Billion (3.69%) invested in Government Guaranteed Fixed Income Instruments whilst Rs. 7.5 Billion (4.8%) was invested in equities. (See Graph 8)

The Board has earned a profit of Rs.1,107 Million on shares by way of dividends and capital gains as compared to Rs. 353 Million in the previous year. The increase was due to the marginal improvement in the Stock market activities in 2014.

As stated earlier, during the year 2014, ETF yielded an investment income of Rs.18.5 Billion as against Rs.16.2 Billion in 2013 which was an increase of Rs.2.3 Billion.

The Board is also looking to invest in rated commercial papers and debentures as alternative sources of Investments to maintain the income targets and ensure

a reasonable dividend to the members at the end of 2014. Further it is examining the possibility of trading in debentures in the secondary market for more attractive gains.

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

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

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

## Collection & Employer Relations

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

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

A scheme was introduced in the year 2008 to facilitate the employers to make monthly contributions using the Electronic payment system through Bank of Ceylon and Commercial Bank. This is a more convenient method which reduces paper work to a great extent and we have noted that more employers used this method in 2014 to make contribution payments. Further the Board is pursuing continuous efforts to encourage more employers use this scheme by conducting awareness programmes among employers' at various forums. At present

about 1000 employers are paying Contributions through the Internet. Further with the Sampath Bank, People's Bank and Hatton National Bank has commenced the ETF Online payment system through their respective e-payment system in 2014.

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

### **Administration/Human Resources**

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

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

### **Finance**

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

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

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

### **Internal Audit**

The Internal Audit Division is responsible for maintaining the internal control process of the activities of the Board while ensuring that the operations lead to enhanced financial and operations discipline. The Audit Committee co-ordinated by the Internal Audit Division met quarterly under the Chairmanship of the Board Member, who is a Senior Chartered Accountant and discussed any shortcomings within the operations systems and monitored rectification action. Also the Internal Audit Division largely focused attention on monitoring the release of claims/benefits of the members which represents a significant percentage of the outflow of the Fund. Further, the Internal Audit team visited selected Regional Offices during 2013 and reported on all major operations. The Internal Audit Division also played a major role in the modification of software modules by the IT Division by providing advice on specific issues from the Audit angle. The Internal audit plan for the year under review was also carried out successfully. Special investigations were also performed by this Division.

### **Technology**

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

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

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

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

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

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

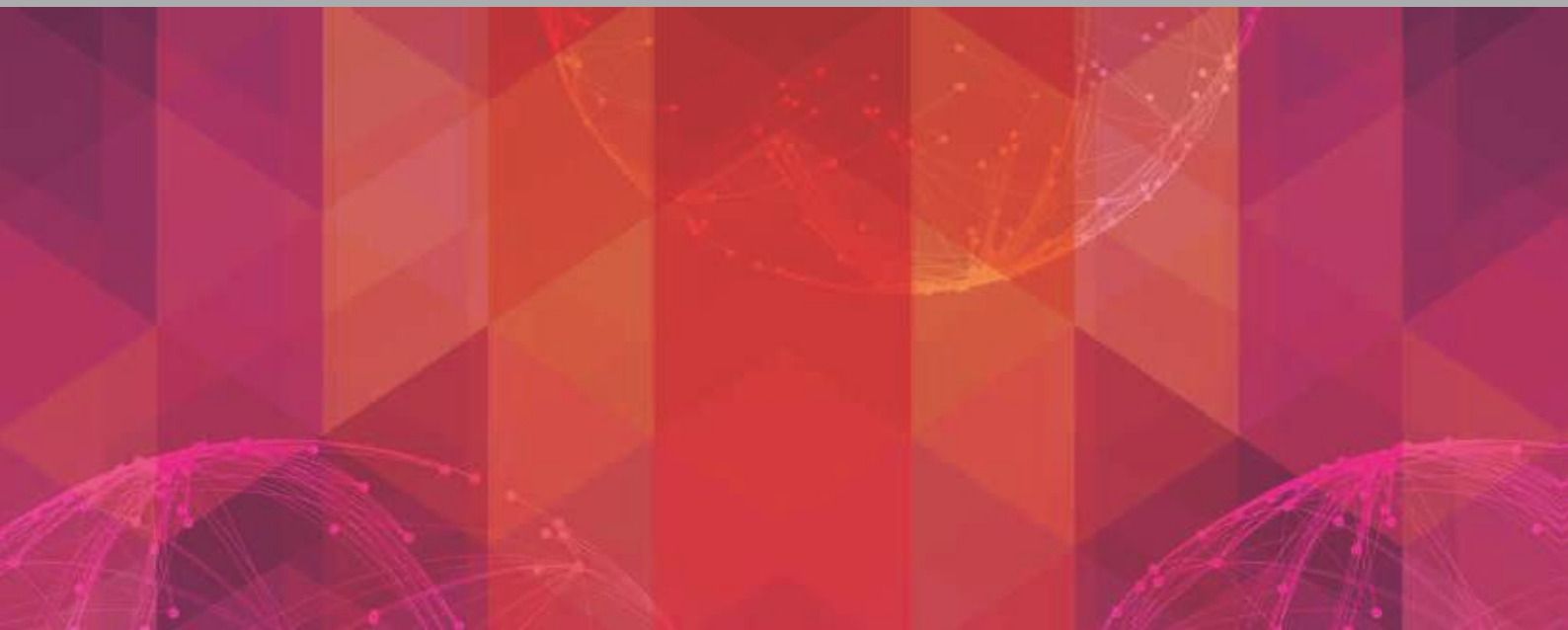
Further constant contact was maintained with govt. IT agency the ICTA for advice and guidance on IT related matters.

### **Amendments to the ETF Act**

The ETF Act was not amended since 1993 and the Management decided that certain amendments to the Act were necessary in keeping with the current requirements and developments. A special sub committee consisting of Board Members and Senior Officials studied the required amendments to the Act and made recommendations to the Board of Directors. The proposed amendments were approved by the Board and sent to the Secretary, Ministry of Finance & Planning. Concurrently these amendments were also referred to the National Labour Advisory Committee (NLAC) for study and comments. These proposals are being finalized at NLAC. Thereafter, this has been sent to the Ministry of National Policies and Economic Affairs in August to be forwarded to the Cabinet for the approval.



**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.**



# ANNUAL REPORT 2014

EMPLOYEES' TRUST FUND BOARD





**FINANCIAL  
STATEMENT  
2014**



# EMPLOYEES' TRUST FUND BOARD

## Statement of Income


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

|   | Notes | 2014<br>(Rs:000)  | 2013<br>(Rs:000)  |
|---|-------|-------------------|-------------------|
| <b>Income</b>   |       |                   |                   |
| Interest Income   | 1     | 17,311,835        | 15,803,801        |
| Dividend Income   | 2     | 309,256           | 318,660           |
| Gain /(Loss) on Financial Assets at Fair Value through Profit /(Loss) | 3     | 894,917           | 68,178            |
| Other Income  | 4     | 317,455           | 286,047           |
| <b>Total Income</b>   |       | <b>18,833,463</b> | <b>16,476,686</b> |
| <b>Expenses</b>   |       |                   |                   |
| Personal Expenses   | 5.1   | 813,000           | 720,022           |
| Administrative Expenses   | 5.2   | 134,786           | 125,307           |
| Financial Expenses  | 5.3   | 3,041             | 2,657             |
| Member Expenses   | 5.4   | 380,512           | 314,372           |
| Depreciation of Property and Equipment                                |       | 18,605            | 18,863            |
| Interest Paid on Current Year   |       | 209,073           | 128,958           |
| <b>Total Operating Expenses</b>                                       |       | <b>1,559,014</b>  | <b>1,310,178</b>  |
| <b>Profit before Taxation</b>   |       | <b>17,274,449</b> | <b>15,166,507</b> |
| Income Tax Expenses   | 6     | 202,131           | 253,404           |
| <b>Profit after Taxation</b>  |       | <b>17,072,318</b> | <b>14,913,103</b> |
| Adjustment to the Current Year Profit                                 |       | 59,941            | 454,624           |
| <b>Adjusted Profit for the Year</b>                                   |       | <b>17,132,259</b> | <b>15,367,727</b> |
| Retained Profit B/F   |       | 33,559            | 163,943           |
| Transfer from Dividend Equalization Reserve Fund                      |       | 515,000           | 343,000           |
| <b>Profit Available for Appropriation</b>                             |       | <b>17,680,818</b> | <b>15,874,670</b> |
| Less: Proposed Apportionment - Interest 3%                            |       | 5,287,328         | 4,752,333         |
| Dividend 7%   |       | 12,337,098        | 11,088,778        |
| <b>Profit after Appropriation</b>                                     |       | <b>56,393</b>     | <b>33,559</b>     |
| <b>OTHER COMPREHENSIVE INCOME STATEMENT</b>                           |       |                   |                   |
| Available for Sale Financial Instrument Reserve                       |       | 1,468,737         | -                 |
| Actuarial Gain/(Loss)   |       | (38,303)          | -                 |
| <b>Retained Profit C/F</b>  |       | <b>1,486,827</b>  | <b>33,559</b>     |


The accounting policies and notes as set out in pages 183 to 202 form an integral part of these financial statement.

Certified as correct,

  
M.A.V. Kumudini  
Finance Manager

  
N.W. Wimalaweera  
Deputy General Manager (Finance)

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

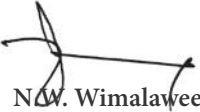
  
Mahinda Madihahewa  
Chairman / Chief Executive Officer

|   | Notes | 2014<br>(Rs:000)   | 2013<br>(Rs:000)   |
|---|-------|--------------------|--------------------|
| <b>ASSETS</b>                               |       |                    |                    |
| Cash and Cash Equivalent                    |       | 2,653,133          | 1,043,164          |
| Other Financial Assets Held-for-Trading     | 7     | 733,167            | 7,550,428          |
| Financial Investments - Available-for-Sale  | 8     | 8,592,784          | 485,835            |
| Financial Investments - Held-to-Maturity    | 9     | 169,651,791        | 153,137,676        |
| Financial Investments - Loans & Receivables | 10    | 7,535,296          | 7,418,615          |
| Other Assets                                | 11    | 6,512,779          | 5,478,971          |
| Property and Equipment                      | 12.1  | 187,008            | 183,067            |
| Intangible Assets                           | 12.2  | 369                | 514                |
| Investment Property                         | 13    | 3,200,000          | 3,200,000          |
| <b>Total Assets</b>                         |       | <b>199,066,327</b> | <b>178,498,270</b> |
| <b>Liability and Equity</b>                 |       |                    |                    |
| Current Tax Liabilities                     |       | 68,330             | 122,359            |
| Other Liabilities                           | 14    | 267,841            | 235,917            |
| Provisions                                  | 15    | 76,923             | 41,482             |
| <b>Total Liabilities</b>                    |       | <b>413,094</b>     | <b>399,758</b>     |
| Total Equity                                | 16    | 198,653,233        | 178,098,513        |
| <b>Total Liabilities and Equity</b>         |       | <b>199,066,327</b> | <b>178,498,270</b> |

The accounting policies and notes as set out in pages 183 to 202 form an integral part of these financial statement.

Certified as correct,

  
M.A.V. Kumudini  
Finance Manager

  
N.W. Wimalaweera  
Deputy General Manager (Finance)

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

  
Mahinda Madihahewa  
Chairman / Chief Executive Officer

|  | 2014             | 2013               |
|--|------------------|--------------------|
|  | (Rs:000)         | (Rs:000)           |
| <b>Operating Activities</b>  |                  |                    |
| Proceeds from Sale of Financial Instrument Designated at FVTPL     | 3,374,100        | 1,476,934          |
| Maturities of Financial Instrument Held to Maturity                | 114,083,080      | 102,544,388        |
| Maturities of Financial Instrument Loan & Receivables              | 111,547          | 102,547            |
| Payment for Purchase for Financial Instruments Designated at FVTPL | (2,739,457)      | (2,175,810)        |
| Payment for Purchase of Held to Maturity Financial Instruments     | (127,911,046)    | (116,989,125)      |
| Loan Granted for Acquire Loan & Receivable Financial Instrument    | (323,760)        | (380,732)          |
| Interest Received  | 13,534,173       | 12,042,295         |
| Dividend Received  | 693,547          | 292,858            |
| Other Income Received  | 319,473          | 261,640            |
| Operational Expenses Paid  | (886,323)        | (1,195,262)        |
| Financial Expenses Paid  | (2,737)          | (2,420)            |
| Member Expenses Paid   | (200,755)        | (166,054)          |
| Income Tax Paid  | (9,846)          | 345,729            |
| Interest Paid  | (209,274)        | (129,808)          |
| Year 5 Scholarship Payment/Refund                                  | (86,573)         | (84,303)           |
| Higher Education Scholarship Payment                               | (20,100)         | (15,720)           |
| <b>Net Cash Flows from Operating Activities</b>                    | <b>(273,953)</b> | <b>(4,072,842)</b> |
| <b>Investing Activities</b>  |                  |                    |
| Purchase of Property and Equipment                                 | (17,420)         | (14,284)           |
| Proceeds from Sale of Property and Equipment                       | 5,156            | -                  |
| <b>Net Cash Flows from Investing Activities</b>                    | <b>(12,265)</b>  | <b>(14,284)</b>    |
| <b>Financing Activities</b>  |                  |                    |
| Contribution Received  | 15,759,617       | 14,253,247         |
| Refunds  | (13,849,365)     | (9,570,013)        |
| <b>Net Cash Flows from Financing Activities</b>                    | <b>1,910,253</b> | <b>4,683,233</b>   |
| <b>Net Increase in Cash and Cash Equivalents</b>                   | <b>1,624,034</b> | <b>596,108</b>     |
| Cash and Cash Equivalents at 01st January                          | 1,010,938        | 414,831            |
| <b>Cash and Cash Equivalents at 31st December</b>                  | <b>2,634,973</b> | <b>1,010,938</b>   |

# EMPLOYEES' TRUST FUND BOARD

## Statement of Changes in Equity

### For the year Ended 31st December

|  | Member Fund      |                  |                   | Retained Profit  | Dividend Equalization Reserve Fund | Revaluation Reserve | Total              |
|--|------------------|------------------|-------------------|------------------|------------------------------------|---------------------|--------------------|
|  | Contribution     | Interest         | Dividend          |                  |                                    |                     |                    |
| <b>Balance as at 01.01.2013</b>                  |                  | 153,631,426      |                   | 163,943          | 1,000,000                          | 3,155,730           | 157,951,099        |
| Prior Year Adjustment                            |                  | (50,731)         |                   | 454,624          |                                    |                     | 403,894            |
| Contribution Received                            | 14,404,117       |                  |                   |                  |                                    |                     | 14,404,117         |
| Refund of Contribution                           | (9,573,700)      |                  |                   |                  |                                    |                     | (9,573,700)        |
| Interest on Member Fund Balance 3.0%             |                  | 4,752,333        |                   | (4,752,333)      |                                    |                     | -                  |
| Dividend 7%                                      |                  |                  | 11,088,778        | (11,088,778)     |                                    |                     | -                  |
| Transfer from Dividend Equalization Reserve Fund |                  |                  |                   | 343,000          | (343,000)                          |                     | -                  |
| Accumulated Profit for the Year                  |                  |                  |                   | 14,913,103       |                                    |                     | 14,913,103         |
| <b>Balance as at 31.12.2013</b>                  | <b>4,830,417</b> | <b>4,752,333</b> | <b>11,088,778</b> | <b>33,559</b>    | <b>657,000</b>                     | <b>3,155,730</b>    | <b>178,098,513</b> |
| <b>Balance as at 01.01.2014</b>                  |                  | 174,252,223      |                   | 33,559           | 657,000                            | 3,155,730           | 178,098,513        |
| Prior Year Adjustment                            |                  | (1,499)          |                   | 59,941           |                                    |                     | 58,442             |
| Contribution Received                            | 15,852,405       |                  |                   |                  |                                    |                     | 15,852,405         |
| Refund of Contribution                           | (13,858,878)     |                  |                   |                  |                                    |                     | (13,858,878)       |
| Interest on Member Fund Balance 3%               |                  | 5,287,328        |                   | (5,287,328)      |                                    |                     | -                  |
| Dividend 7%                                      |                  |                  | 12,337,098        | (12,337,098)     |                                    |                     | -                  |
| Transfer from Dividend Equalization Reserve Fund |                  |                  |                   | 515,000          | (515,000)                          |                     | -                  |
| Accumulated Profit for the Year                  |                  |                  |                   | 17,072,318       |                                    |                     | 17,072,318         |
| Available for Sale Financial Instrument Reserve  |                  |                  |                   | 1,468,737        |                                    |                     | 1,468,737          |
| Actuarial Gain/(Loss)                            |                  |                  |                   | (38,303)         |                                    |                     | (38,303)           |
| <b>Balance as at 31.12.2014</b>                  | <b>1,993,526</b> | <b>5,287,328</b> | <b>12,337,098</b> | <b>1,486,827</b> | <b>142,000</b>                     | <b>3,155,730</b>    | <b>198,653,233</b> |

| Notes   | 2014              | 2013              |
|---|-------------------|-------------------|
|   | (Rs:000)          | (Rs:000)          |
| <b>1 Interest Income</b>                                  |                   |                   |
| <b>1.1 Financial Investments Available for Sale</b>       | -                 | -                 |
| <b>1.2 Financial Investments Held to Maturity</b>         |                   |                   |
| Interest on Fixed Deposit                                 | 478,851           | 815,288           |
| Interest from Debenture                                   | 125,166           | 126,968           |
| Yield on Treasury Bond                                    | 15,130,219        | 12,847,398        |
| Margin on Treasury Bill                                   | 510,180           | 799,227           |
| Interest on Repurchase Agreements                         | 64,612            | 102,635           |
| Interest on Money Market                                  | 1,414             | 1,696             |
| Interest on Custodial A/C                                 | 27,246            | 10,769            |
| Interest on Bonds - Power Project                         | 283,764           | 401,235           |
| Income on Commercial Paper                                | -                 | 12,636            |
| <b>Sub Total</b>  | <b>16,621,452</b> | <b>15,117,852</b> |
| <b>1.3 Financial Investments on Loans and Receivables</b> |                   |                   |
| Interest on Rupee Loan                                    | 587,000           | 587,000           |
| Interest on Viyana Housing Loan                           | 87,698            | 87,249            |
| Interest on Distress Loans (Special loan)                 | 548               | 501               |
| Interest on Vehicle Loan                                  | 4,642             | 2,911             |
| Interest on Special Distress Loan                         | 5,414             | 4,550             |
| Interest on Special Festival Loan                         | 141               | 136               |
| Interest on Computer Loan                                 | 6                 | 10                |
| Interest on Staff Hosing Loan - SMIB                      | 4,747             | 3,540             |
| Interest on Sport Club Loan                               | 186               | 51                |
| <b>Sub Total</b>  | <b>690,383</b>    | <b>685,949</b>    |
| <b>Total Interest Income</b>                              | <b>17,311,835</b> | <b>15,803,801</b> |
| <b>2 Dividend Income</b>                                  |                   |                   |
| <b>Investment Held for Trading</b>                        |                   |                   |
| Dividends on Shares - Quoted                              | 273,841           | 284,610           |
| Dividends on Units - Quoted                               | 8,948             | 8,948             |
| <b>Investments Available for Sale</b>                     |                   |                   |
| Dividend on Shares - Unquoted                             | 26,468            | 25,103            |
| <b>Total Dividend Income</b>                              | <b>309,256</b>    | <b>318,660</b>    |

| Notes   | 2014           | 2013           |
|---|----------------|----------------|
|   | (Rs:000)       | (Rs:000)       |
| <b>3 Net Gain / (Loss) on Financial Assets at Fair Value through Profit or (Loss)</b> |                |                |
| <b>Financial Assets Designated at Fair Value Through Profit or (Loss)</b>             |                |                |
| Profit on Sale of Quoted Shares   | 772,387        | 171,962        |
| Fair Value Adjustment of Units  | 87,439         | 25,345         |
| Fair Value Adjustment of Shares   | 35,091         | (129,129)      |
| <b>Sub Total</b>  | <b>894,917</b> | <b>68,178</b>  |
| <b>4 Other Income</b>   |                |                |
| <b>Rental Income from Investment Property</b>   |                |                |
| Property Income - Lease Rent  | 23,525         | 21,075         |
| Profit on Sale of Property, Plant and Equipment                                       | 761            | 16             |
| Surcharges  | 247,756        | 226,935        |
| Income on Express Claims  | 17,665         | 17,100         |
| Staff Loan Income   | 27,585         | 18,393         |
| Sundry Income   | 1,350          | 2,528          |
| Profit / (Loss) on Holiday Bungalow   | (1,188)        | -              |
| <b>Total Other Income</b>   | <b>317,455</b> | <b>286,047</b> |
| <b>5.1 Personal Expenses</b>  |                |                |
| <b>Staff Costs (Including Director) Comprise:</b>                                     |                |                |
| <b>5.1.1 Wages and Salaries</b>   |                |                |
| Salaries  | 311,207        | 279,752        |
| Directors' Fees   | 563            | 503            |
| Cost of Living Allowance  | 85,514         | 70,345         |
| Overtime  | 21,471         | 18,000         |
| Holiday Pay   | 13,393         | 11,225         |
| <b>Sub Total</b>  | <b>432,147</b> | <b>379,824</b> |
| <b>5.1.2 Short - Term Monetary and Non - Monetary Benefits</b>                        |                |                |
| Recruitment, Training & Development   | 1,234          | 1,729          |
| Staff Welfare   | 20,152         | 19,122         |
| Incentive   | 87,081         | 83,529         |
| Encashment of Leave   | 11,788         | 11,659         |
| Bonus   | 68,119         | 58,848         |
| Reimbursement of Medical Expenses   | 55,724         | 49,043         |
| Staff Loan Cost   | 27,585         | 18,393         |
| Interest on Housing Loans   | 18,000         | 15,242         |
| <b>Sub Total</b>  | <b>289,683</b> | <b>257,565</b> |
| <b>5.1.3 Defined Benefit Plans</b>  |                |                |
| Interest Cost   | 10,640         | 9,595          |
| Current Service Cost  | 6,897          | 4,966          |
| <b>Sub Total</b>  | <b>17,537</b>  | <b>14,561</b>  |



| Notes  | 2014           | 2013           |
|--|----------------|----------------|
|  | (Rs:000)       | (Rs:000)       |
| <b>5.1.4 Other Long Term Employee Benefits</b> |                |                |
| E.P.F. Board's Contribution                    | 61,361         | 54,990         |
| E.T.F. Board's Contribution                    | 12,272         | 10,998         |
| <b>Sub Total</b>                               | <b>73,632</b>  | <b>65,988</b>  |
| <b>5.1.5 Other Staff Welfare Expenses</b>      |                |                |
| P.A.Y.E. Tax                                   | -              | 2,084          |
| <b>Sub Total</b>                               | <b>-</b>       | <b>2,084</b>   |
| <b>Total Personal Expenses</b>                 | <b>813,000</b> | <b>720,022</b> |
| <b>Key Management Personal Compensation</b>    |                |                |
| Directors' Fees                                | 563            | 503            |
| <b>Sub Total</b>                               | <b>563</b>     | <b>503</b>     |
| <b>5.2 Administrative Expenses</b>             |                |                |
| Building Rent                                  | 39,685         | 34,773         |
| Rates  | 554            | 541            |
| Electricity Charges                            | 18,512         | 17,240         |
| Telephone Charges                              | 8,084          | 7,321          |
| Water Charges                                  | 1,494          | 1,603          |
| Consultancy Fees                               | 86             | 1,669          |
| Audit Fees                                     | 900            | 467            |
| Security Charges                               | 6,607          | 6,357          |
| Legal Fees                                     | 1,817          | 1,470          |
| Secretarial Expenses                           | 253            | 300            |
| Postage & Telegrams - Admin.                   | 2,222          | 2,327          |
| Travelling & Subsistence - Admin.              | 1,044          | 1,065          |
| Printing & Stationery - Admin.                 | 1,549          | 1,641          |
| Media & Publicity - Admin.                     | 172            | 286            |
| IT Expenses - Admin.                           | 1,055          | 1,154          |
| Advertisement & Press Notices                  | 1,816          | 1,887          |
| Vehicle Insurance & License Fees               | 2,945          | 2,694          |
| Newspapers & Periodicals                       | 679            | 639            |
| Donations                                      | 96             | 806            |
| Disciplinary Inquiries                         | 72             | -              |
| Other Insurance                                | 28             | 39             |
| Office Upkeep & Requirements                   | 361            | 679            |
| Stamp Duty                                     | 36             | 2              |
| Miscellaneous Expenses                         | 2,165          | 1,917          |
| Vehicle Repairs & Maintenance                  | 16,591         | 14,763         |
| Fuel Charges                                   | 15,378         | 15,253         |
| Maintenance of Building                        | 8,474          | 6,403          |
| Maintenance of Machine & Equipments            | 2,112          | 2,009          |
| <b>Sub Total</b>                               | <b>134,786</b> | <b>125,307</b> |

| Notes                                     | 2014           | 2013           |
|---|----------------|----------------|
|   | (Rs:000)       | (Rs:000)       |
| <b>5.3 Financial Expenses</b>             |                |                |
| Custodial Fee                             | 269            | 235            |
| Bank Charges                              | 2,739          | 2,419          |
| Bad Debts Written-off                     | 30             | -              |
| Release of Write Back Claims              | -              | 4              |
| Write back of Unclaimed Refunds/ Benefits | 2              | -              |
| <b>Sub Total</b>                          | <b>3,041</b>   | <b>2,657</b>   |
| <b>Total Administrative Expenses</b>      | <b>950,826</b> | <b>847,986</b> |
| <b>5.4 Member Expenses</b>                |                |                |
| <b>5.4.1 Member Benefits</b>              |                |                |
| Death Benefits Scheme                     | 90,615         | 49,248         |
| Permanent Disablement Scheme              | 6,614          | 5,823          |
| I.O.L. Implanting Scheme                  | 4,313          | 4,958          |
| Sramasuwa Rekawarana Scheme               | 16,787         | 20,099         |
| Heart Surgery Scheme                      | 60,174         | 65,790         |
| Kidney Transplant Scheme                  | 1,527          | 2,105          |
| Year 5 Scholarship Scheme                 | 84,970         | 82,830         |
| Higher Education Scholarship Scheme       | 52,692         | 17,604         |
| <b>Sub Total</b>                          | <b>317,693</b> | <b>248,457</b> |
| <b>5.4.2 Member Services</b>              |                |                |
| Postage & Telegrams - Memb.               | 20,204         | 21,095         |
| Printing & Stationery - Memb.             | 13,937         | 14,772         |
| Computer Stationery                       | 2,939          | 3,894          |
| Self Employment Promotion Expense         | 476            | -              |
| Employees Awareness Scheme                | 305            | 394            |
| Travelling & Subsistance - Memb.          | 5,512          | 5,277          |
| Media & Publicity - Memb.                 | 940            | 727            |
| Medical Consultat. for Members            | 26             | 22             |
| Scholarship Expenses                      | 1,531          | 1,579          |
| Deyatakirula Exhib. & CSR Project         | 2,216          | 3,419          |
| <b>Sub Total</b>                          | <b>48,085</b>  | <b>51,178</b>  |

# EMPLOYEES' TRUST FUND BOARD

Notes to the Statement of Comprehensive Income Account  
For the year Ended 31st December

| Notes                        | 2014           | 2013           |
|------------------------------|----------------|----------------|
|                              | (Rs:000)       | (Rs:000)       |
| <b>5.4.3 IT Services</b>     |                |                |
| Maintenance of Hardware      | 3,874          | 4,444          |
| Maintenance of Software      | 326            | 308            |
| Depreciation - IT            | 5,980          | 5,871          |
| Insurance - IT               | 45             | 137            |
| Rental on Leased Lines       | 4,509          | 3,976          |
| <b>Sub Total</b>             | <b>14,734</b>  | <b>14,736</b>  |
| <b>Total Member Expenses</b> | <b>380,512</b> | <b>314,372</b> |
| <b>6 Income Tax</b>          |                |                |
| Net Tax Expenses             | 202,131        | 253,404        |
|                              | <b>202,131</b> | <b>253,404</b> |

| Notes   | 2014               | 2013               |
|---|--------------------|--------------------|
|   | (Rs:000)           | (Rs:000)           |
| <b>7 Other Financial Assets Held for Trading</b>          |                    |                    |
| Quoted Share Investment (Trading)                         | 376,739            | 7,281,440          |
| Less: Provision for Diminuation in Value of Quoted Shares | -                  | -                  |
| Quoted Units  | 356,428            | 268,989            |
|   | <b>733,167</b>     | <b>7,550,428</b>   |
| <b>8 Financial Investments Available for Sale</b>         |                    |                    |
| Quoted Share Investment (Long Term)                       | 8,106,949          | -                  |
| Unquoted Share Investment                                 | 485,835            | 485,835            |
| Promissory Notes  | 12,174             | 12,174             |
| Shares - Delisted & Under Liquidation                     | 25,228             | 29,294             |
| Less: Provision for Diminuation in Value Shares           | (25,228)           | (29,294)           |
| Impairment on Promissory Notes                            | (12,174)           | (12,174)           |
|   | <b>8,592,784</b>   | <b>485,835</b>     |
| <b>9 Financial Investments Held to Maturity</b>           |                    |                    |
| Treasury Bonds  | 155,280,369        | 137,547,313        |
| Treasury Bills  | 6,639,129          | 5,656,190          |
| Quoted - Debenture  | 1,091,685          | 584,277            |
| Less: Impirement on Debenture                             | (7,450)            | (7,450)            |
| Fixed Deposits  | 2,050,200          | 5,350,200          |
| Repurchase Agreement                                      | 1,365,858          | 720,146            |
| Debentures Unquoted                                       | 240,000            | 295,000            |
| Bonds - Power Project                                     | 2,992,000          | 2,992,000          |
|   | <b>169,651,791</b> | <b>153,137,676</b> |
| <b>10 Financial Assets - Loans &amp; Receivables</b>      |                    |                    |
| Rupee Loans   | 6,100,000          | 6,100,000          |
| Housing Finance - N.D.B                                   | 817,850            | 790,494            |
| Staff Loans   |                    |                    |
| Distress Loan (Special Loan)                              | 14,900             | 14,835             |
| Special Distress Loan                                     | 174,658            | 161,774            |
| Festival Advance  | 928                | 950                |
| Special Festival Loan                                     | 899                | 925                |
| Special Advance   | 4,517              | 3,653              |
| Vehicle Loan  | 152,242            | 117,880            |
| Computer Loan   | 27                 | 118                |
| SMIB-Staff Housing Loan                                   | 269,276            | 227,986            |
|   | <b>7,535,296</b>   | <b>7,418,615</b>   |

| Notes  | 2014             | 2013             |
|--|------------------|------------------|
|  | (Rs:000)         | (Rs:000)         |
| <b>11 Other Assets</b>                       |                  |                  |
| Accrued Income                               |                  |                  |
| Interest Receivable                          | 4,985,702        | 4,076,110        |
| Less: Provision Against Doubtful Income      | (27,866)         | (27,866)         |
|  | <b>4,957,836</b> | <b>4,048,245</b> |
| <b>Receivables &amp; Prepayments</b>         |                  |                  |
| Contribution Receivable                      | 1,366,104        | 1,271,061        |
| Money Order Control                          | 1,402            | 3,647            |
| Postal Franking Machine Imprest              | 439              | 226              |
| Sundry Debtors                               | 19,229           | 8,509            |
| Dues from Ex-employees                       | 1,598            | 610              |
| Security Deposits                            | 2,983            | 2,983            |
| Prepayment                                   | 10,035           | 13,550           |
| Pre - Paid Staff Loan Cost                   | 120,010          | 96,076           |
| Advance Payment                              | 2,231            | 3,683            |
| Deposit - Summervill & Co.                   | 21,900           | 21,900           |
| Medical Advance                              | 45               | 30               |
| Loan - Sports Club                           | 1,617            | 2,502            |
|  | <b>1,547,592</b> | <b>1,424,777</b> |
| <b>Tax Recoverable</b>                       |                  |                  |
| Tax Paid in Advance                          | 512              | 1,408            |
|  | <b>512</b>       | <b>1,408</b>     |
| <b>Others including Stocks of Stationery</b> |                  |                  |
| Stock of Stationery & Consumable             | 5,660            | 4,541            |
| Holiday Bungalow Inventory                   | 1,178            | -                |
|  | 6,838            | 4,541            |
|  | <b>6,512,779</b> | <b>5,478,971</b> |

# EMPLOYEES' TRUST FUND BOARD

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

| 12.1 Property, Plant and Equipment   | Land          | Buildings     | Motor Vehicles | Fixtures & Fittings | Computer Equipment | Furniture & Other Equip. | Total          |
|--------------------------------------|---------------|---------------|----------------|---------------------|--------------------|--------------------------|----------------|
| <b>Cost</b>                          |               |               |                |                     |                    |                          |                |
| <b>Balance at 1st January 2013</b>   | 47,687        | -             | 136,567        | 15,810              | 133,635            | 56,838                   | 390,537        |
| Additions                            | 3,629         | -             | -              | -                   | 9,603              | 6,158                    | 19,390         |
| Disposals                            | -             | -             | -              | -                   | -                  | (185)                    | (185)          |
| Revaluations                         | -             | -             | -              | -                   | -                  | -                        | -              |
| <b>Balance at 31st December 2013</b> | <b>51,316</b> | <b>-</b>      | <b>136,567</b> | <b>15,810</b>       | <b>143,238</b>     | <b>62,811</b>            | <b>409,742</b> |
| <b>Balance at 1st January 2014</b>   | 51,316        | -             | 136,567        | 15,810              | 143,238            | 62,811                   | 409,742        |
| Additions                            | -             | 37,380        | 13,200         | -                   | 5,035              | 9,415                    | 65,030         |
| Adjustment                           | (31,316)      | -             | -              | -                   | -                  | -                        | (31,316)       |
| Disposals                            | -             | -             | (11,584)       | -                   | (8,735)            | (5,188)                  | (25,507)       |
| Revaluations                         | -             | -             | -              | -                   | -                  | -                        | -              |
| <b>Balance at 31st December 2014</b> | <b>20,000</b> | <b>37,380</b> | <b>138,183</b> | <b>15,810</b>       | <b>139,538</b>     | <b>67,038</b>            | <b>417,949</b> |

# EMPLOYEES' TRUST FUND BOARD

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

|                                      | Land   | Buildings | Motor Vehicles | Fixtures & Fittings | Computer Equipment | Furniture & Other Equip. | Total          |
|--------------------------------------|--------|-----------|----------------|---------------------|--------------------|--------------------------|----------------|
| <b>Accumulated Depreciation</b>      |        |           |                |                     |                    |                          |                |
| Balance at 1st January 2013          | -      | -         | 79,442         | 15,363              | 75,447             | 32,045                   | 202,297        |
| Depreciation Charge for the Year     | -      | -         | 12,720         | 128                 | 7,135              | 4,546                    | 24,529         |
| Disposals                            | -      | -         | -              | -                   | -                  | (150)                    | (150)          |
| <b>Balance at 31st December 2013</b> | -      | -         | 92,162         | 15,491              | 82,582             | 36,441                   | <b>226,676</b> |
| <b>Balance at 1st January 2014</b>   |        |           |                |                     |                    |                          |                |
| Depreciation Charge for the Year     | -      | 823       | 11,804         | 92                  | 7,330              | 5,047                    | 25,095         |
| Disposals                            | -      | -         | (9,271)        | -                   | (7,301)            | (4,256)                  | (20,828)       |
| <b>Balance at 31st December 2014</b> | -      | 823       | 94,696         | 15,583              | 82,611             | 37,231                   | <b>230,943</b> |
| <b>Net Book Value</b>                |        |           |                |                     |                    |                          |                |
| At 1st January 2013                  | 47,687 | -         | 57,125         | 447                 | 58,188             | 24,793                   | 188,240        |
| At 31st December 2013                | 51,317 | -         | 44,405         | 319                 | 60,657             | 26,369                   | 183,067        |
| At 31st December 2014                | 20,000 | 36,558    | 43,488         | 227                 | 56,927             | 29,807                   | 187,008        |

| Notes   | 2014             | 2013             |
|---|------------------|------------------|
|   | (Rs:000)         | (Rs:000)         |
| <b>12.2 Intangible Assets - Computer Software</b>       |                  |                  |
| At Beginning of Period                                  | 514              | 717              |
| Amortization  | (145)            | (203)            |
| <b>At End of Period</b>                                 | <b>369</b>       | <b>514</b>       |
| <b>13 Investment Property</b>                           |                  |                  |
| At Beginning of Period                                  | 3,200,000        | 3,200,000        |
| Change in Fair Value                                    | -                | -                |
| <b>At end of Period</b>                                 | <b>3,200,000</b> | <b>3,200,000</b> |
| <b>14 Other Liabilities</b>                             |                  |                  |
| Defined Benefit Obligation                              | 146,459          | 96,727           |
| <b>Accounts Payables and Sundry Creditors</b>           |                  |                  |
| Retained Tax on Claims & Benefits Paid                  | 15,199           | 6,336            |
| Stamp Duty Payable on Claims                            | 847              | 523              |
| Unpaid Emoluments                                       | 87               | 22               |
| Stamp Duty Payable on Salaries                          | 90               | 87               |
| Superintendent of EPF                                   | 11,240           | 10,510           |
| Sundry Creditors  | 41,555           | 56,028           |
| Unclaimed Refunds                                       | 4,840            | 5,183            |
| Unpaid Death Benefits                                   | 9,239            | 8,598            |
| E.T.F. Payable  | 1,348            | 1,262            |
| P.A.Y.E. Tax  | 2,166            | 1,432            |
| VAT   | 240              | 229              |
| N.B.Tax   | 40               | 38               |
| Unclaimed Scholarship                                   | 2,258            | 2,320            |
| Returned Benefit  | 13,997           | 13,969           |
| Salaries Control  | -                | 339              |
| Salary Deductions Clearance                             | 75               | 89               |
| <b>Bank Overdraft</b>                                   |                  |                  |
| People's Bank C/A-149                                   | 11,434           | 32,226           |
| Commercial Bank C/A-432                                 | 6,726            | -                |
|   | <b>267,841</b>   | <b>235,917</b>   |
| <b>14.1 Defined Benefit Obligation</b>                  |                  |                  |
| Opening Defined Benefit Obligation 01st January         | 96,727           | 90,119           |
| Interest Cost   | 10,640           | 9,595            |
| Current Service Cost                                    | 6,897            | 4,966            |
| Benefit Paid  | (6,108)          | (7,953)          |
| Actuarial (Gains) / Losses on Obligations               | 38,303           | -                |
| <b>Closing Defined Benefit Obligation 31st December</b> | <b>146,459</b>   | <b>96,727</b>    |



| Notes  | 2014               | 2013               |
|--|--------------------|--------------------|
|  | (Rs:000)           | (Rs:000)           |
| <b>15 Provisions</b>                               |                    |                    |
| Provision for Audit fee                            | 2,400              | 1,500              |
| Provision for Telephone                            | 88                 | 159                |
| Provision for Electricity                          | 2,024              | -                  |
| Provision for Water                                | 6                  | 1                  |
| Provn. for Employees' Accident Compensation Scheme | 2,000              | 2,000              |
| Provision for Bonus                                | 263                | 19                 |
| Provision for Leave Encashment                     | 10,303             | 10,068             |
| Provision for Postage                              | 1,279              | 1,662              |
| Provision for Higher Education Scholarship         | 58,560             | 25,968             |
| Provision for Year 5 Scholarship                   | -                  | 105                |
|  | <b>76,923</b>      | <b>41,482</b>      |
| <b>16 Equity and Reserves</b>                      |                    |                    |
| Retained Profit B/F                                | 33,559             | 163,943            |
| Retained Profit Current Period                     | 18,502,752         | 14,913,103         |
| Prior Year Adjustment                              | 59,941             | 454,624            |
| Transfer from Dividend Equalization Reserve Fund   | 515,000            | 343,000            |
| <b>Profit Available for Distribution</b>           | <b>19,111,252</b>  | <b>15,874,670</b>  |
| Less: Interest on Member Fund Balance 3.0%         | 5,287,328          | 4,752,333          |
| Dividend 7.0%                                      | 12,337,098         | 11,088,778         |
| <b>Retained Profit C/F</b>                         | <b>1,486,827</b>   | <b>33,559</b>      |
| Member Fund as at 01st January                     | 174,252,223        | 153,631,426        |
| Less: Contribution & Interest Paid- Previous Year  | (1,499)            | (50,731)           |
|  | 174,250,724        | 153,580,695        |
| Net Contribution Received During the Year          | 1,993,526          | 4,830,417          |
| Add: Interest on Member Fund 3%                    | 5,287,328          | 4,752,333          |
| Dividend 7%  | 12,337,098         | 11,088,778         |
| <b>Member Fund as at 31st December</b>             | <b>193,868,676</b> | <b>174,252,223</b> |
| <b>Reserves</b>                                    |                    |                    |
| Dividend Equalization Reserve                      | 142,000            | 657,000            |
| Revaluation Reserve                                | 3,155,730          | 3,155,730          |
| <b>Equity and Reserves</b>                         | <b>198,653,233</b> | <b>178,098,513</b> |

**1. Significant Accounting Policies**

**1.1 Corporate Information**

**1.1.1 Legal and Domicile Form**

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

**1.1.2 Principal Activities and Nature of Operations**

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

**1.1.3 Date of Authorization to Issue**

The financial statements of ETF Board for the year ended 31<sup>st</sup> December, 2014 were authorized for issue in accordance with resolution of the Board of Directors on 25<sup>th</sup> February 2015.

**1.2 Basis of Preparation**

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

**1.3 Statement of Compliance**

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

**1.4 Going Concern**

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

**1.5 Revenue**

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

**1.5.1 Interest and Similar Income and Expense**

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the Effective Interest Rate (EIR). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or

incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

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

#### 1.5.2 Dividend Income

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

#### 1.5.3 Other Income

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

#### 1.5.4 Adjustment to the Current Year Profit

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

#### 1.6 Functional and Presentation Currency

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

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

##### Date of Recognition

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

##### Initial Measurement of Financial Instruments

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

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

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

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

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

- The designation eliminates or significantly reduces the inconsistent treatment that would

otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis.

- The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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

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

Available for sale investments include long term equity investment and debt securities which are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

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

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

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

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

#### **Loans and Receivables**

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

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

Investment in Repurchase Agreement has fixed or determinable payments and fixed maturity and the Board has the positive intent and ability hold to maturity thereby determined to be held to maturity investment. This should be initially measured at fair value including transaction

cost if any and subsequently to be measured at amortized cost using effective interest rate.

### Impairment of Financial Assets

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

### Financial Assets Carried at Amortized Cost

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

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

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

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

### Available for Sale Financial Investments

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

In the case of **debt instruments** classified as available for sale, the entity assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

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

#### Re-Classification

The Board evaluates its held for trading asset portfolio to determine whether the intention to sell them in the near future is still appropriate. When the Board is unable to trade these financial instrument due to inactive markets and therefore management's intention to sell them in the foreseeable future, the Board may select to reclassify these financial instruments as Financial Instrument available for sale as defined by SLAS – LKAS 39 (Financial Instrument: Recognition and measurement).

Financial instruments re-classified as available for sale are measured at fair value and unrealized gains will be recognized directly in Equity through other comprehensive income in the "Available for Sale Financial Instrument Reserve" and unrealized losses will be transferred from the same Reserve to the extent that loss does not exceed the balance held in the said Reserve as at that date. The rest of the losses on fair value adjustment will be recorded in "Net gain or loss on financial instrument designated at fair value through profit or loss" in the Income Statement. When the investments are disposed of, the cumulative gain or losses previously recognized in Equity is recognized in the "Income Statement" in "Other Operating Income".

### 1.8 Property, Plant and Equipment

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

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

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

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

Depreciation of assets begins when it is available for use.

### 1.9 Impairment of Non-financial Assets

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

and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

### 1.10 Investment Property

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

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

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

### 1.11 Intangible Assets

#### 1.11.1 Externally Acquired Intangible Assets

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

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

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

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

#### Computer Software Packages

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

**1.12 Leasehold Properties**

**1.12.1 Operating Lease**

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

**1.13 Inventories**

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

**1.14 Retirement Benefit Cost**

**1.14.1 Defined Contribution Plans**

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

**1.14.2 Defined Benefit Plans – Gratuity**

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

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

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

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

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

|                       |          |
|-----------------------|----------|
| Discount Rate         | 11%      |
| Salary Increment Rate | 02%      |
| Retirement Age        | 60 Years |

**1.15 Taxation**

**1.15.1 Current Taxes**

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



**1.16 Equity**

**1.16.1 Member Fund**

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

**1.16.2 Dividends**

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

**1.17 Provisions**

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

**2. Critical Accounting Estimates and Judgments**

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

**Estimates and assumptions**

**(a) Valuation of Investment Property**

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

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

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

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

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

**3. Financial Instruments - Risk Management**

**Risk Management Structure**

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

In common with all other businesses, the Board is exposed to risks that arise from its use of financial instruments. This note describes the Board's objectives, policies and processes

for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

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

**3.1 Credit Risk**

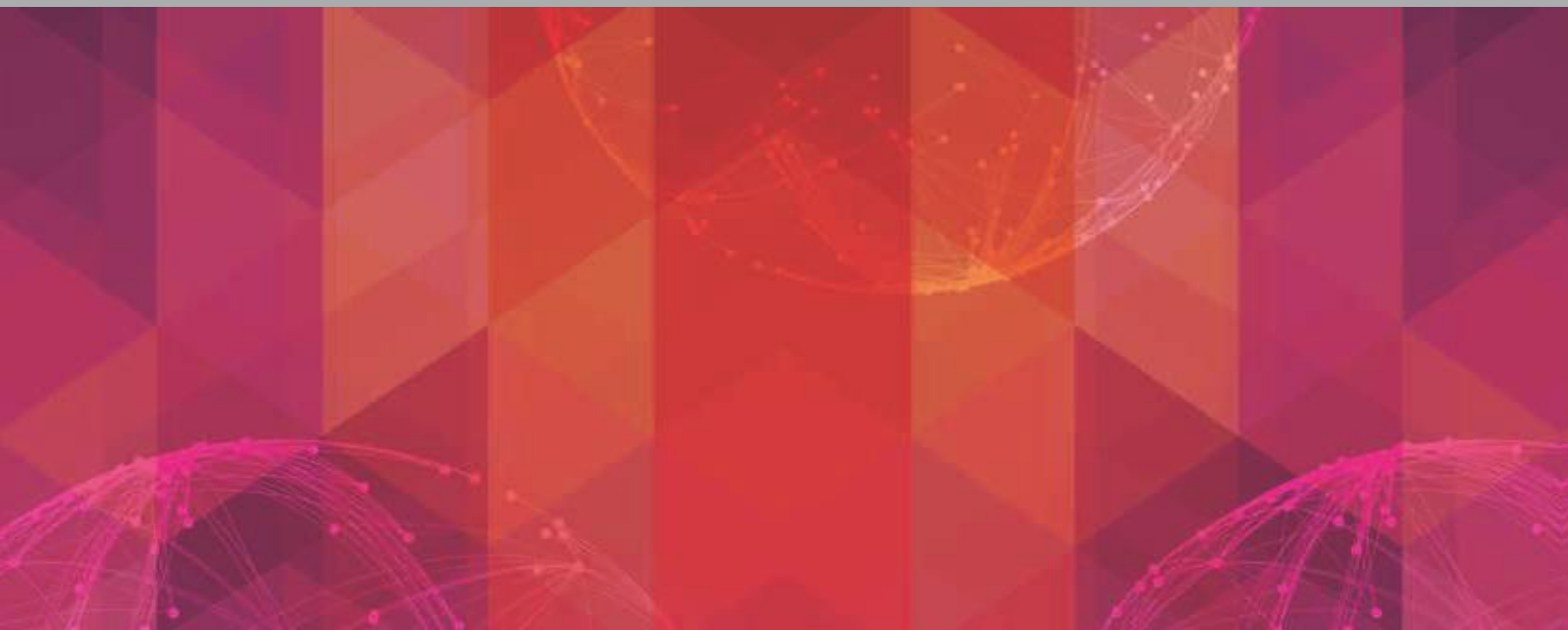
Credit risk is the risk that the Board will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Board manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring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

**3.2 Impairment Assessment**

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

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





# ANNUAL REPORT 2014

EMPLOYEES' TRUST FUND BOARD



**REPORT OF THE  
AUDITOR GENERAL**  
and observations of the Board  
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 31 December 2014 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 which are compatible to International Auditing Standards of Supreme Auditing Institutions (ISSAI 100-1810). 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion

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

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

### **2. Financial Statements**

#### **2.1 Qualified Opinion**

In my opinion, except for the effects on the financial statements of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Employees' Trust Fund Board as at 31 December 2014 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

Following observations are made.

(a) Sri Lanka Accounting Standards No.7

Although the Operating, Investing and Financial Activities of the Board should be reported under those classifications in the Cash Flow for the period under review, the Board had not disclosed the activities relevant to investing and financing activities of the Board correctly.

(b) Sri Lanka Accounting Standards No.8

(i) Where a retrospective application is necessary on the introduction of a new accounting policy, the changes in accounting policy should be applied retrospectively. In the financial statements for the year under review introducing new accounting policy, based on the share market prices the profit and loss on fair value of the Investment Portfolio amounting to Rs. 341.6 million and financial assets available for sale Rs. 6,638 million has been classified and change in fair value Rs. 35 million and Rs.1,468.87 had been credited to profit and reserve respectively.

(ii) The income tax over provision of Rs. 59.9 million relevant to the previous year had been added to the income of the year under review, instead of adjusting retrospectively.

(c) Sri Lanka Accounting Standards No.12

The calculation of the income tax liability amounting to Rs. 202 million had not been disclosed in the financial statements in detail to identify it clearly.

(d) Sri Lanka Accounting Standards No.16

A revaluation had not been done to show the fair value of the assets which could be utilized further, included in the fixed assets to the cost of Rs. 417.9 million had been depreciating under diminishing value method during the period of over 25 years.

(e) Sri Lanka Accounting Standards No.24

There had not been disclosed the related party relationship with regard to the Board of Directors and the management.

### 2.2.2 Going Concern

Except the 3 percent interests which should be distributed compulsorily to members annually, the Board had maintained a declared annual benefit percentage as 7 from the year 2012. Since the Board had not a sufficient annual operational surplus to declare such dividends, the Board had utilized Rs. 746 million, Rs. 2,089 million, Rs.473 million and Rs. 492 million respectively from the year 2011 to 2014 from retained profits and dividend equalization reserve for previous years and the year under review. In addition to that, unrealized profit of Rs. 2,596 million and Rs. 2,684 respectively had been utilized to declare dividends in the previous year as well as in the year under review. Hence, the effort of the Board to utilize dividend equalization reserve and retained earnings to maintain an annual dividend percentage of 7 could not be excluded that it would not affect un-favourably to the future going concern of the Board.

### 2.2.3 Contributions not credited to Member Accounts

Although the financial statements disclosed that Rs. 193,868 million as the balance of the Members' Fund as at 31st. December 2014, the amount actually credited to the members' accounts was Rs. 173,670 as at the date of 17th August 2015. The amount received during the year 2014 which had not



been accounted as at 17th August 2015 was Rs. 11,754 million comprising members' contributions, interest and dividends thereto. The balance amount of Rs. 8,444 million had been received during the past period of about 33 years, from 1981 to 31st December 2013, which had not been accounted yet to the member accounts were member contributions, interest and dividends thereto. The balance not credited to member accounts during previous year was Rs. 9,496 million while it has reduced to 14.5% amounting to Rs. 8,118 million in the year under review and there was no material development in the process of accounting of members' contributions received during the previous years, in the current year.

#### 2.2.4 Accounting Deficiencies

##### Following observations are made

- (a) The operating surplus for the year under review had been overstated by Rs. 5,287 due to non-accounting of minimum 3% interest payable to members according to the Act had not been accounted as operational expenses. In the previous year also the operating surplus had been overstated by Rs. 4,752 million.
- (b) The comprehensive income for the year under review had been overstated by Rs. 772 million which was not a capital gain calculated on the cost of shares as at 01st January 2014.
- © A loss of Rs. 2,135 million had been incurred by sale of shares of 15 companies less than the cost of shares without any authority, while scrutinizing some investment registers submitted to the audit. A categorization of shares had been done in the year 2014 in contrary to the provisions in the Sri Lanka Accounting Standards No. 39 and the shares sold at a loss had been set off against the share market price, the loss of Rs. 213 million incurred had been shown in the financial statements as a profit of Rs. 64 million earned on sale of shares. In addition to this, Rs. 191 million earned on sale of shares in 24 companies had been stated in the financial statements as Rs. 341.6 million.

#### 2.2.5 Transactions not supported by adequate Authority

- (a) According to the Section 14 of the Employees' Trust Fund Act, the profits earned on investments should be utilized to declare dividends. However, instead of utilizing actual interest income of Rs. 12,445.8 receivable on Rs. 155,280 million invested on Treasury Bonds as at 31st December 2014, an unrealized profit of Rs. 2,684 million had been utilized to pay dividends to members by utilizing Rs. 15,130 million of effective interest.

#### 2.2.6 Lack of Evidence for Audit

The evidence for audit to confirm each of the following subjects had not been submitted to the audit.

- (a) Reports of the physical verifications confirming the existence and the value of the fixed assets amounting to Rs. 417.9 as at 01st. January 2014.
- (b) Ministry approval for the Investment Policy of the Board, in accordance with Section 9 of the Employees' Trust Fund Act No. 46 of 1980.

#### 2.2.7 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) Sections 8 (g) and (h) of Employees' Trust Fund Act No. 46 of 1980                         | A statement of investments showing the declared value, cost of purchase and market value of investments for each year to be submitted to the Minister before 30th September in the following year had not been submitted. |
| b) Section 2 of Management Services Department Letter No. DMS/C2/2/42 of 05th. February 2013. | New salary scales approved by the Board of Directors had been implemented from 01st May 2013 in contrary to Recruitment and Promotions Procedure approved by the Management Services Department.                          |
| c) Treasury Circular No. 1024/600/29 CD of 12th. December 1963.                               | Treasury approval had not been obtained for the Financial Procedure Manual of the Board.  |
| d) Administration and Human Resources Division Circular No. 2013/03 of 15th February 2013.    | Although a vehicle loan could not be obtained by an officer not exceeding 5 year period of service, vehicle loans of Rs. 15 million had been re-granted to 18 officers before exceeding the 5 year limit.                 |

### 2.3 Accounts Receivable and Payable

The following observations are made.

- (a) An action had not been taken to settle a total of Rs. 29 million of members contributions such as Rs. 9 in the unclaimed death benefit account continuously increasing commencing from the year 1995, Rs. 14 million in the retained benefits account commencing from the year 2001, Rs. 4.8 in the unclaimed refunds account and Rs. 1.4 million contributions received by money orders of Postal Department as at the end of the year under review.
- (b) An action had not been taken to recover Rs. 1.5 million receivable from 9 officers.
- (c) An action had not been taken to settle a value of Rs. 1,091,284 in 2 bank accounts for nearly 8 years as unrealized money orders and outstanding cheques and an unidentified differences of Rs.130,305 in 7 bank accounts as at the end of the year under review.

## 3. Financial Review

### 3.1 Financial Results

The operational results of the Board for the year under review had resulted in a surplus of Rs.17,132 million while the corresponding surplus of Rs.15,368 million for the preceding year, observing an increase in the financial result of Rs. 1,764 million for the year under review.

### 3.2 Analytical Financial Review

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 07 years are given below.

| Year | Total contribution | Cumulative Interest | Members' Entitlement as at 31st December |
|------|--------------------|---------------------|--|
|      | Rs. Millions       | Rs. Millions        | Rs. Millions                             |
| 2008 | 42,735             | 46,134              | 88,869                                   |
| 2009 | 48,396             | 54,661              | 103,057                                  |
| 2010 | 55,242             | 64,610              | 119,852                                  |
| 2011 | 62,758             | 72,728              | 135,486                                  |
| 2012 | 71,563             | 82,068              | 153,631                                  |
| 2013 | 81,347             | 92,905              | 174,252                                  |
| 2014 | 90,587             | 103,281             | 193,868                                  |

As per the above information the total entitlements of the members of the fund were 46.73% of the contributions as at the year 2014, while 53.27% was the cumulative interest. Whereas the relative growth of total entitlements of the year 2014 has increased by 11.26% relatively to the 2013, but the growth of the contribution increased by 11.36% during the said year

### 3.3 Litigations Vs Board and Board Vs other institutions

The following observations are made.

- (a) A compensation of Rs. 21 million had been paid to a private company on an unfavourable Court order against the Board due to a breach of an agreement entered into by the Board without consulting the Attorney General. Since the Board had filed an appeal against in the Commercial High Courts and as a result, the plaintiff company had submitted a bank guarantee to the value of the above amount. Although this amount had shown in the accounts as receivable, there is a doubt whether this amount could be recoverable as the payment had been made on an unfavourable court order. However, this court case had been pending even as at 30th June 2015.
- (b) There had been a receivable amount of Rs. 13 from 2 companies as at the end of the on leased investment property which were not revalued since the year 2011. A Court case had been filed against one of the companies only to recover Rs. 5 million out of this amount.

## 4. Operating Review

### 4.1 Performance

- (a) Status of performance as at the end of the year 2014 as shown below.

| Description  | Actual Number | Number Relating to the Performance of the Fund |
|--|---------------|--|
| Employment of Private and Semi Government Sector Employees | 3,723,947     | 2,400,000                                      |
| Employers  | 235,872       | 74,276   |
| No. of Member Accounts of the Fund (Millions)              | 12.0          | 2.4  |

*(Source: Report of the Central Bank of Sri Lanka - 2014)*

Although the provisions had made to enroll self-employed persons to the Employees' Trust Fund according to the amendments made to the Section 20 (1) of Employees' Trust Fund Act No. 46 of 1980 by Section 7 of the Employees' Trust Fund (Amendment) Act No. 47 of 1988, the Board could have enrolled only 36,912 members out of 2,687,257 self-employed persons recorded as at 31st December 2014, which is 1.37% from the total thereof. The contribution received from this source was Rs. 148 million as at 30th June 2015.

- (b) The information regarding the scholarship awards implemented during last 7 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 Grade 5 Scholarships Rs. | Cost of A/ Level Scholarships Rs. | Total Cost of Scholarships Rs. |
|------|---|---|----------------------------------|-----------------------------------|--------------------------------|
| 2008 | 2,100,000                                     | 2,497   | 26,084,760                       | -                                 | 26,084,760                     |
| 2009 | 2,100,000                                     | 3,000   | 46,811,006                       | -                                 | 46,811,006                     |
| 2010 | 2,100,000                                     | 3,000   | 45,385,680                       | -                                 | 45,385,680                     |
| 2011 | 2,100,000                                     | 6,669   | 74,051,599                       | 23,640,000                        | 97,691,599                     |
| 2012 | 2,200,000                                     | 6,962   | 75,775,685                       | 23,604,000                        | 99,379,685                     |
| 2013 | 2,200,000                                     | 6,982   | 84,124,844                       | 17,888,234                        | 102,013,078                    |
| 2014 | 2,400,000                                     | 7,301   | 84,975,000                       | 19,632,000                        | 104,607,000                    |
|      |   | <b>36,411</b>   | <b>434,208,574</b>               | <b>84,764,234</b>                 | <b>521,972,808</b>             |

The board had been awarded 7,301 scholarships out of the fund entitled to total membership of 2,200,000 during the year under review. Attention of the Board had not been focused on a programme for enhancing the education of the children of the under privileged members of the fund as at the end of the year under review.

- © The active data of the total membership, number of active member accounts and number of employers etc. of the Employees' Trust Fund as at 31st December 2014, compared to the active data of the Employees' Provident Fund are given below.

|   | According to the Employees' Provident Fund | According to the Employees' Trust Fund |
|---|--|--|
| Total number of member accounts                           | 15,400,000                                 | 12,000,000                             |
| No. of Active Member Accounts Contributing to the fund    | 2,400,000                                  | 2,400,000                              |
| No. of employers  | 71,000                                     | 74,276                                 |
| Percentage of benefits paid inclusive of interest in 2013 | 10.5                                       | 10.0                                   |

(Source: Report of the Central Bank of Sri Lanka - 2014)

As per the above information the members of the approved provident funds as well as Self- employed persons could have ability and opportunity to contribute to Employees' Trust Fund but it was not fulfill the targets adequately relative to the Employees' Provident Fund.

#### 4.2 Management Inefficiencies

The following observations are made.

- (a) Although the appreciation of share value of 18 companies which were brought forward on written down cost as at 01st January 2014 shown in the investments available for sale as at 31st December 2014 had been shown as Rs. 723 whereas the appreciation of those 18 companies as per the average purchase cost of shares the appreciation was Rs. 123.9 million. Since, the value of shares had been accounted after setting off the cost of shares, the appreciation of market value of shares had been shown in the financial statements in excessive of 83%.
- (b) Even though the information had given in the Treasury Operations Circular No. 01/2008 dated 03rd March 2008, not to invest any funds directly or indirectly connected to the Government implemented with immediate effect to suspend such transactions, on 24th December 2014 and 21st May 2015 had been purchased to the value of Rs. 29,504,500 and Rs. 578,158,948 Treasury Bonds bearing face value amounted to Rs. 250,000,000 and Rs. 461,549,361 from certain 02 private financial institutions in the secondary market.

- (c) Action had not been taken to register in the Central Bank to purchase treasury bonds directly participating at the auction of treasury bonds even by 30th June 2015, even though the Employees' Trust Fund Board had been considered as one of the main institutional purchasers of Sri Lanka by purchasing treasury bonds valued to Rs. 173,573.8 million as at 31st December 2014.
- (d) A savings account with an average bank balance of Rs. 500 million at the early part of the year had been maintained by the Board in a Commercial Bank, had been increased to Rs. 700 million to Rs. 1,933 million during the period August 2014 to January 2015. The interest income earned during the year from this account was Rs. 27 million. If the amount which was retained in the said account had been invested in a fixed deposit account, the gross interest income would have been received nearly Rs. 49 million during that period.
- (e) An amount of Rs. 4 million invested to purchase 178,700 in an inactive textile company had been written off from the books stating that there was no action to be taken thereto. This company had been delisted over 05 years and any return had not been received from this investment by the Board.
- (f) Even though an investment made in promissory notes of a group of companies amounting to Rs. 12 million and Rs. 7 million invested in debentures would have been realized in the years 2002 and 2007 respectively, could have not been realized by the Board even on 30th June 2015.
- (g) An amount of Rs. 12 million to be recovered from a Plantation Company had not been recovered even on 30th June 2015.
- (h) A loss of Rs. 213 million had been incurred on sale of shares of 15 companies at a lesser price than the cost of shares. The loss incurred on sale of shares of 6 companies in the previous year had been Rs. 22 million.
- (i) The board had been invested Rs. 10 million to purchase 1,000,000 units in a certain unit trust fund in 1997. No return had been achieved for the amount invested in this Unit Trust from the year of purchase up to the year under review for 18 years. However, if this amount had been invested under a minimum 5% interest rate, the estimated gross income would have been Rs. 14 million. However, any return whatsoever had not been received for this unit trust during several years, the market value of an unit had been decided as Rs. 136.72 for cost of Rs. 10 per unit had been prepared financial statements adjusting Rs. 127.7 million.
- (j) No income had been received by the Board for the investment of Rs. 775 million in 7,740,783 shares based on the market price in the year 2014. This investment consisted, Rs. 2 million invested in a computer company, in which the going concern was doubtful and Rs. 2 million invested in a financial company which was continuously incurring losses during past period. The following details indicate the investments made by the Board for last 5 years for which no income had been received.

| Year | No. of Companies | No. of Shares | Invested Amount Rs. |
|------|------------------|---------------|---------------------|
| 2010 | 17               | 4,111,468     | 119,083,880         |
| 2011 | 18               | 7,683,979     | 163,867,080         |
| 2012 | 25               | 13,046,750    | 226,125,038         |
| 2013 | 24               | 18,817,090    | 700,560,142         |
| 2014 | 12               | 7,740,783     | 775,039,968         |

- (k) The details of investment in Equity Market, income and percentage of income received on the investment during the years 2011 and 2012 are as follows:

| Year | No. of Companies | No. of Shares | Invested Amount As at 01st Jan Rs. | Investment Income Received Rs. | Rate of Income % |
|------|------------------|---------------|------------------------------------|--------------------------------|------------------|
| 2011 | 130              | 78,211,481    | 5,204,377,279                      | 703,052,274                    | 13.5             |
| 2012 | 107              | 101,999,123   | 7,713,939,116                      | 324,179,030                    | 4.2              |

It was impossible to mention in this report that the investment income and percentages of income gained in the share market transactions and the relevant information for the profitability of the years 2013 and 2014 due to non-submission of detailed statement of investments by the Board.

#### 4.3 Transactions of Contentious Nature

- (a) The Board had spent Rs. 21 million as cost of overtime in the year under review due to the payment of one and a half time for one hour overtime and completion of 08 hours on Saturday/ Sunday and on Government Holidays an additional one day wage stating that the Board is functioning under the Shop and Office Act. While the staff of the Board had to work five and half days per week for the entitlement of overtime and annual leave had been limited to 21 days, the Board had granted 42 days annual leave and allowed staff to work 5 days per week in contrary to the provisions of the Act.

#### 4.4 Identified Losses

- (a) A loss of Rs. 2 million had been incurred on sale of 3 vehicles owned by the Board during the year under review.

### 5. Accountability and Good Governance

#### 5.1 Internal Audit

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


#### 5.3 Budgetary Control

It was observed that the Board had not utilized the budget as productive management control tool as the considerable variations had been observed when compared to actual income and expenditure and budgeted income and expenditure of the Board.

### 6. Systems and Controls

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

- Accounting.
- Amounts receivable and payable.
- Investments.
- Maintenance of Member Accounts.

  
**H.M. Gamini Wijesinghe**  
 Auditor General.

## Observation of the Board with regard to the Report of the Auditor General - 2014

### 2.2.1 Sri Lanka Accounting Standards

(a) Sri Lanka Accounting Standards No. 07

The cash flows for the year under review has reported in the cash flow statement classified as operational, investing and financing activities according to the sections 7 and 10 of Sri Lanka Accounting Standards. While main objective of the Board is to invest the collection of funds in a proper way and it has been disclosed correctly in the cash flow statement under operational activities and the investing and financing activities also disclosed accurately.

(b) Sri Lanka Accounting Standards No. 08

(i) Section 41 of Sri Lanka Accounting Standards No. 08 discusses the instructions regarding the application of Sri Lanka Accounting Standards relating to errors and therefore, it is not applicable as this observation indicates the re-classification as per Sri Lanka Accounting Standards No. 39.

(ii) Since, it is impractical to adjust the tax over provisions retrospectively according to Sri Lanka Accounting Standards No. 08, the changes of accounting estimates have shown in the accounts under retrospective restatement according to accounting standards.

(c) Sri Lanka Accounting Standards No. 12

The income tax liability of Rs. 202,131,000 has been disclosed accurately in the income statement according to Sections 79,80,and 81 of Sri Lanka Accounting Standards and furthermore a detailed statement has been included in Note: (1:15:1) of Accounting Policies. However, a statement of tax liability (Tax Computation) would be submitted with the accounts for the year 2015.

(d) Sri Lanka Accounting Standards No. 16

Since the fixed assets of the Board had been utilized only for general administration of 17 branches island wide and 05 offices in Colombo and due to these items are sold rarely, these assets have been estimated according to the Sri Lanka Accounting Standard No. 16 on depreciated.

However, the revaluation of assets according to the Section 34 of Sri Lanka Accounting Standards No. 16 for the accounting year 2015 has been referred to the Department of Valuation.

(e) Sri Lanka Accounting Standards No. 24

The Section 01 of Sri Lanka Accounting Standards No. 24 states that the entity's financial statements contain that disclosures necessary to draw possibility that it's financial position and profit or loss may have been affected the existence of related parties and by transactions and outstanding balances without such parties.

Instructions and ruling regarding the investments are issued by the Treasury Operations Department of Ministry of Finance while the Board had invested Rs. 470,960,937.50 to acquire 90% entitlement of Lanka Salt Corporation equity in 1992.

Except that, no transaction has occurred during the year 2014 with related parties which could considerably affect the entity's Board of Directors and the management with regard to financial operations policy control.

### 2.2.2 Going Concern

Cannot be agreeable with you observation. The absolute objective of the maintenance of dividend equalization reserve is to keep an optimum dividend level in the entity's period of lesser profits as well as inflow of funds without hindrance to other operational functions of the entity. Accordingly, these funds have utilized to declare fair percentage of dividend to the members in needy occasions.

Since, there is no any hindrance to utilize retained profits or dividend equalization reserve to declare dividends in accordance with the Employees' Trust Fund Act No. 46 of 1980.

The interest and dividends paid to members for the last 02 years are given below as percentages relatively to the utilization of dividend equalization reserve and retained profits.

| Year | Dividends & Interest Paid<br>(Rs. Million) | Procure Funds for Out of Profits from the Year<br>(Rs.Million) | Interest & Dividends Out of Reserve<br>(Rs.Million) | Percentage (Out of Profits -%) | Percentage (Out of Reserve-%) |
|------|--|--|---|--------------------------------|-------------------------------|
| 2013 | 15,841                                     | 15,498   | 343   | 97.83                          | 2.17                          |
| 2014 | 17,624                                     | 17,109   | 515   | 97.08                          | 2.92                          |

Since this shows, that in the last two years relatively to the dividends paid, the utilization of dividend equalization to pay dividends only a small percentage. Therefore, retained profits you have mentioned in the observation is not affected adversely to the payment of dividends at all.

### 2.2.3 Contributions Not Credited Member Accounts

The status of crediting the balance of member's fund as at 31.12.2014 as per the computer records as on 22.09.2014 are as follows:-

|   | Value<br>(Rs. Million) | Percentage |
|---|------------------------|------------|
| Balance of Members' Fund as at 31.12.2014   | 193,869                |            |
| The value actually credited to Member's Accounts as at 11.01.2015   | 179,796                | 93%        |
| The value to be credited to Member's Accounts   | 14,073                 | 7%         |
| <b>The break-up of the value to be credited to Member's Accounts</b>  |                        |            |
| The value of employers' contribution paid to Board from 1981 to 31.12.2014  | 4,915                  |            |
| The estimated value of interest and dividends relevant To employers' contribution paid to Board from 1981 to 31.12.2014 | 9,158                  |            |

Further, out of the above sum of Rs. 4,915 million, Rs. 2,302 million member's contribution is relevant to the current year while the credit process of said amount is scheduled to complete before 31.12.2015 and a sum of Rs. 2,613 million is member's contribution from 1981 to 31.12.2014. The crediting of value of that amount of Rs. 2,613 million to member's accounts due to un-avoidable circumstances mentioned here under.

1. Even though the employers have paid the member contributions, credit details of employees has not submitted.
2. It is impossible to clear how to appropriate separately to entities, when the members contribution has paid by one cheque for several entities.(The relevant employer entities are inactive currently).
3. The data in the half yearly returns of entities are not clear (The relevant employer entities are inactive currently).



4. Due to the change of management of entities, it is impossible to get the details of previous periods and the new management is reluctant to give support to solve the problems arose in those period.
5. Specially due to non-availability of National Identity Cards to Estate based members and submission of incomplete names by the employers also cause to exist identification problems.

Further, minimizing the above problems giving awareness to active employers through Regional Offices and getting the relevant information and scheduled to update the member accounts.

#### 2.2.4 Accounting Deficiencies

- (a) 3% credited to members' account amounting to Rs. 5,287,328 for the year 2014 had been shown as deducted from the profit available for appropriation as done in the previous years. You have suggested the change in the order where 3% should be shown in the financial statements. Since, this suggestion is not affected to the operating performance, such submission is not contrary to the Employees' Trust Fund Act No. 46 of 1980, and the annual financial statements for the year 2014 had already been submitted to the audit, the proposed change would be shown in the financial statements for the year 2015 with the approval of the Board of Directors.
- (b) It is not agreeable with your observation. On the requirement to comply with the new Sri Lanka Accounting Standards from 2012, this accounting treatment had been done according to Sri Lanka Accounting Standard No. 39. The profit or loss on shares had been calculated comparing the fair value and sale proceeds of shares according to the Section 46 of the said Standard. Share is an asset on which the price is determined on the market transactions. The determination of fair value on such an asset based on market price and calculate the profit or loss would have submitted correctly as per the standard.
- (c) The purchase of shares of 15 companies were made in the year 2010/2011 or in some previous years under the prevailed market price of those periods. The Board of Directors have decided to dispose the investment in these companies, reviewing the progress for the past 03 years with determination to minimize further losses. Further, the Board of Directors have decided to follow the "Stop Loss Policy" for such instances in accordance with Section 4.2 (c) of Investment Policy of the Board. Where the accounting treatments based on fair value, if the fair value is less than the cost the profit would be higher, while the other way the profit would be lesser. It cannot be agreeable to the statement that states, showing a false profit on financial statements, having followed this method.

As an example, based on the market price prevailed on 19.12.2014 a further clarification could be shown in the following companies.

| Company          | Cost of Shares<br>(Rs. Cts) | Fair Value of Shares<br>(Rs.Cts) | Sale Price<br>(Rs.Cts) | Profit / Loss       |                           |
|------------------|-----------------------------|----------------------------------|------------------------|---------------------|---------------------------|
|                  |                             |                                  |                        | On Cost<br>(Rs.Cts) | On Fair Value<br>(Rs.Cts) |
| NDB Bank PLC     | 137.67                      | 160.50                           | 241.00                 | 103.33              | 80.50                     |
| Heycarb PLC      | 178.15                      | 189.80                           | 179.90                 | 1.75                | (9.90)                    |
| Trans Asia Hotel | 64.82                       | 79.90                            | 97.00                  | 32.18               | 17.10                     |

As per the above example, in the event that the fair value is less than the purchase cost of a share, the accounting profit is shown more than the actual value as well as the purchase cost of a share is more than the fair value the accounting profit is shown less than the actual value. Therefore this accounting method "Share Value at marked to market" which should compulsorily be adhered to would not change the profit or loss obviously or any other intention, it is always in between advantage or disadvantage or a mix of these two instances.

### 2.2.5 Transactions not supported by adequate authority

The Section 14 of Employees' Trust Fund Act states, that the dividends should be declared from the profits earned on investments of the fund.

Since, these profits earned on investments are accounting concept, generally accepted accounting principles should be used to calculate thereto.

In the accounting of income and expenditure, the Board has used accrued basis in accordance with Sri Lanka Accounting Standard No. 01 and Conceptual Frame Work of Financial Reporting. Accordingly, in the calculation of the annual income of Treasury Bonds the rate of annual yield method has been used.

Further, the amount invested in Treasury Bonds of Central Bank of Sri Lanka has been classified under Financial Investments Held to Maturity as at 31st December 2014 and the effective interest realized on investment amounting to Rs. 15,130,219,000 has been shown in the accounts accurately as profits realized on investments held to maturity as done in the previous years.

In the preparation of annual accounts the amount invested in treasury bonds by the Board valued to Rs. 155,280.32 million has been classified under Financial Investments Held to Maturity in accordance with Section 46(b) of Sri Lanka Accounting Standard No. 39 and the profit calculated using the effective interest rate has been credited to Profit & Loss Account according to the Section 55(b) of Sri Lanka Accounting Standard No. 39 and Sri Lanka Accounting Standard No. 18.

In our conclusion, the provisions in the Employees' Trust Fund Act and Sri Lanka Accounting Standards has been adhered to in preparation of annual accounts by the Board or declaration of annual dividends by the Board of Directors and in the accounting of treasury bond income as well as methods in payment of dividends has been done as previous years.

### 2.2.6 Lack of Evidence for Audit

- (a) The physical verification report for the year 2014 has submitted to the audit with a letter dated 30.03.2015 and a representative of you have acknowledged the same.
- (b) Cannot be agreeable with your observation, During the year under review the Board has not started commercial or industrial enterprises or development of immovable properties as per the Section 9 of Employees' Trust Fund Act No. 46 of 1981.
- (c) Further, there is no write off of a quantity of shares from the books as stated in your observation and only the loss risen from the value of shares according to the fair value has accounted while the said quantity of investment remained as it is. Hence, this accounting adjustment has been done according to the Sri Lanka Accounting Standards, there is no necessity to obtain re-approval mentioned in the query.

### 2.3 Accounts Receivable and Payable

- (a) The balance of Rs. 9,238,508.95 was relevant to 789 claimants remained in the unclaimed death benefits account as at 31st December 2014. There are instances where many claimants than one claimant determined, when a death of a member has been occurred. Since all the claimants are not submitted their claims at one instance and some of them are not in position to submit adequate information (such as non-submission of certificates.) etc. The amounts payable to them are being retained in this account and actions are being taken only to settle the claims who have submitted the documents. Considering the facts submitted by 05 death benefit claimants Rs. 256,566.51 has been paid from January 2015 to 31.08.2015 and the liability payable to 784 death benefit claims was valued to Rs. 8,981,942.44 as at 31.08.2015.

Accordingly, on the submission of the legitimate claims, their entitlements would be paid to them in future.

The balance of returned benefits account belongs to 1,231 claimants was Rs. 13,997,461.72 as at 31.12.2014. This account represents the value of returned benefits which had been directly sent to the bank accounts of the claimants had been returned by the bank due to the erroneous details in their bank accounts. Action would be taken to inform the claimants and these amounts would be paid to claimants after scrutinizing their entitlements when re-applied.

An amount of Rs. 2,351,176.96 has been paid to 105 beneficiaries from January 2015 to 31.08.2014 and the liability payable to 1126 beneficiaries was valued to Rs. 11,646,284.76 as at 31.08.2015.

The value of the Refund Benefit Cheques account entitled to 953 beneficiaries was Rs. 4,840,183.32 as at 31.12.2014. The cheques are issued to beneficiaries who have bank accounts where there are no facility of Slip System, to their addresses given in the benefit claim by registered post.

The cheques returned out of those cheques would be sent to relevant banks by registered post. The above amount represents the cheques sent to the bank but not credited to applicants accounts.

While Rs. 325,889.81 had been paid to 12 beneficiaries on their request from January to 31.08.2014, the value of the liability to be paid to 941 beneficiaries as at 31.08.2014 had been Rs. 4,514,293.51.

- (b) Out of the amounts to be recovered from the ex-employees of Board, the balances relevant to loans they have taken are being recovered from the sureties. They have been informed to settle the amounts due on festival advances, normal advances for which no sureties involved and the amounts recoverable on no pay and uniforms etc., and actions are being taken constantly to recover these amounts.
- (c) Out of the unrealized money orders valued to Rs. 558,451.92, deposited in Bank of Ceylon – Corporate Branch during the period 2008 to 2012, money orders amounting to Rs. 91,034.53 had been received by the Board on 26.05.2015. Thus, on an amount of Rs. 448,186.54 to be realized and action is being taken to encash these money orders as soon as possible.

A new process had been implemented on 01.06.2012 to submit the money orders to the Postal Department without depositing in the bank to avoid these delays. Accordingly these money orders are encashed by submitting ordinary money orders to Colombo Central Mail Exchange Office and electronic money orders to IT Division of the Postal Department. The Electronic Money Orders are submitted via “e” Pay System of Postal Department Web Site.

Some of the accounts mentioned in the audit query had already been settled. As some of other bank accounts are coming from the year 2001, actions are being taken to settle those unsettled balance in future after scrutinizing the reasons for the unsettled balances.

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

- (a) Since the Investment Registers consist of the stated value of the investment, purchase cost and statements relating to market value etc., are being maintained daily by the Investment Division and it could be submitted to the audit on their request at any moment. However, a report comprising the stated value of investment, purchase cost and market value etc. relating to the year 2014 is submitted herewith. (Annex 02)
- (b) Since the existing privilege of 05 year period enjoyed by the employees of the Board had been extended to maximum period of 15 years by this circular, in view of avoiding a powerful trade union activity to be staged, a committee had been appointed by the Board to get the recommendations in order to absorb employees to the grades and posts in recruitment procedure approved and implemented in May 2013 without prejudice to the recruitment and promotion procedure existed in April 2013. After obtaining the approval of the Board to the committee recommendations, the employees had been absorbed in to their posts and grades. Thereby the approved salary scales and grades had been applied as per the recruitment procedure.

- (c) The Financial Procedure Manual has been submitted to the approval of General Treasury after the approval of Board of Directors. The draft of amended Financial Procedure Manual has been concluded covering a wide range of current requirements. This draft is to submit for the approval of General Treasury after obtaining the approval of Board of Directors.
- (d) Even though, under the provisions of existing circulars of Human Resources Division regarding the granting of loans to the employees of the Board, once a vehicle loan had been obtained a 05 year period had to be lapsed to re-apply a loan, the employees are entitled to re-apply a vehicle loan after the previous loan had been fully settled even before expiration of the relevant period in accordance with the provisions of Section 1 of Administration and Human Resources Division Circular No. 03/2013 dated 15.02.2013 and Section XIV of Administration and Human Resources Division Circular No. 12/2005 dated 25.07.2005. Accordingly the vehicle loans had been granted to the qualified persons as per the provisions of the circulars.

### **3. Financial Review**

#### **3.1 Financial Results**

Agree with your observation.

#### **3.2 Analytical Financial Review**

- (a) Agree with your analytical financial review.
- (b) Agree with the observations.

#### **3.3 Litigations Vs Board and Board Vs other Entities**

- (a) This is with reference to the case No. 56(98) 1 filed against the Board M/s. Somerville & Co. Ltd due to a breach of an agreement entered into with the Board.

Even though the Board had made submissions to the Court, the Court had ordered to pay Rs. 21.9 million to M/s. Somerville & Co. and the Board had paid Rs.21.9 million to M/s. Somerville & Co.

But, and appeal had been filed against the court decision by the Board and the above company had been deposited a bank guarantee of Rs. 21.9 million in the courts as per the Appeal Court Order.

The Supreme Court Case No. SC/20/2003 filed by the Board will be called on 24.11.2015.

- (b) The lease agreement entered into with a certain company on a leased property had expired on 30th June 2015 and the lessor had agreed in writing to settle the arrears of lease rental before the end of October 2015. If the company fails to settle the arrears rental action will be taken to file a case in future.

### **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 should contribute to this fund monthly on behalf of their employees. Although the report stated the number of employers as 235,872, the employers should only be contributed to this fund if they employed even a certain employee. Accordingly, 74,276 active employers have been contributed to this fund. as at 31.12.2014.

While most of the entities are informal, it has revealed that those entities have maintained by the employer himself. Since, there is a shortage in assistant officers attached to enforcement activities, broad spot inspection activities had been delayed. A recruitment plan has been prepared currently, to recruit officers island-wide in electoral basis in future.

Even though the Section 18 of Employees' Trust Fund Act No. 46 of 1980 had allowed to enroll self-employed persons to the fund, according to provisions in the Act, when enrolled as a member, self-employed person has to pay Rs. 25 or multiple equal amount thereon for each and every month in the end of ensuing month or on or before that date.

If in the Government Corporations, Statutory Boards and Private Sector, profession or in a certain enterprise the contributions are paid by the employer in institutional basis.

A formal programme is being implemented to enroll full time self-employed persons to this fund. Further, discussions have already been done with the state banks on introducing a low interest bank loan system for self-employed persons.

- (b) While all the estimated active members of fund are entitled to the scholarship programmes implemented by the Board, the all scholarship beneficiaries who are qualified would entitle to this benefit. A material development of beneficiaries during the year 2015 when compared to previous years.
- (c) While the Employees' Trust Fund Board has implemented in 1981, the Employees' Provident Fund established in 1958. The said reason could be considered for the total membership difference between Employees' Trust Fund and Employees' Provident Fund as at 31.12.2014.

There could be seen a equal number of active membership in between Employees' Provident Fund and Employees' Trust Fund in the year 2014. The actions taken in functions of Collections and Employer Relations Division, prior preparedness, functions committed in order and feedback etc. could be mentioned as reasons for above progress.

Even though the number of active membership mentioned as 74,276 , it was 74,362 according to our records while 76,269 as at 31.08.2015.

#### **4.2 Management Inefficiencies**

- (a) It is not agreeable to this statement.

The reply given for the 2.2.4 (d) in the query is relevant to this observation. Further, it is logical when comparing the cost and fair value in calculating profit and loss for the year and the fair value is determined on Marked to Market price, the existing share value would be indicated accurately in the financial statements.

- (b) Treasury Bonds to the face value of Rs. 462,549,361.00 has been purchased from Wealth Trust Securities Ltd on 24.12.2014 and Treasury Bonds to the face value of Rs. 250,000,000.00 has been purchased from Perpetual Treasuries Ltd on 22.05.2015. The Board Approval has granted on 25.05.2014 to purchase from the primary dealers who have registered in primary market when they are offering a higher interest rate than the interest rate offered by the Public Debt Department of Central Bank. Further, we have purchased the treasury bonds issued by the Central Bank. There are no investments in those institutions at all and keep the funds in Central Depository System controlled by the Central Bank of Sri Lanka, under the name of the Board. The all the future cash transactions after the purchases are dealing with the Central Bank of Sri Lanka.

The details of transactions of above purchases are given below.

| Date of Purchase | Amount Paid (Rs.)     | Face Value (Rs.)      | Difference between Face Value and Amount paid (Rs) | Coupon Rate | Yield on Investment % |
|------------------|-----------------------|-----------------------|--|-------------|-----------------------|
| 24.12.2014       | 462,549,361.00        | 578,158,948.29        | 115,609,587.29                                     | 11.20       | 7.71                  |
| 22.05.2015       | 250,000,000.00        | 292,504,500.00        | 42,504,500.00                                      | 11.20       | 8.70                  |
| <b>Total</b>     | <b>712,549,361.00</b> | <b>870,663,448.29</b> | <b>158,114,087.29</b>                              |             |                       |

The Market Yield of the above two occasions of purchase were 7.71% and 8.70%. But in each six month period the Board is getting an interest rate of 11.20%. Even though, we have actually invested on the prevailed market interest rates of 7.71% and 8.70% , the Board is getting an income on higher coupon rate of 11.20%, the buyer has to pay a sum equivalent to higher interest income to the seller at the time of purchase. Since this is the normal procedure of investment in treasury bonds, actually it is not a loss.

There was no necessity arose in registering the Board in Central Bank for the direct purchase of treasury bonds and treasury bills. Up to February 2015, the Central Bank was offered Weighted Average Yield while the payments were made through Peoples' Bank. All the other transactions are directly dealt with the Public Debt Department of the Central Bank.

Further, Central Bank has informed us to participate in the auction after February 2015, without a payment at all the Board is being participated through Peoples' Bank, which is a state bank.

- (c) This is an account maintained on the approval of the Board of Directors to facilitate the operational activities of share market investments. While the amounts derived from the share market transactions are invested in this account and these funds are utilized to re-invest where the necessity arises. Instructions has been issued only to re-invest in share market transactions the funds earned by the share market activities on a decision of top management in 2013 when the activities of share market transactions has been entrusted to Finance Division. Accordingly, additional funds were not utilized in investing in the share market while the funds received through day to day transactions were retained in this account until the re purchase of shares. Based on the favourable status in share market in the latter part of 2014 a large quantity of shares could be sold, while the balance of this account has been gradually became higher with the deposit of sale proceeds and dividends. This account is not merely maintained for interest income but to maintain as an account for share market transactions.

It was expected to earn capital gains and dividends through investing these retained funds in share market. Accordingly, additional funds of over Rs. 1 billion as capital gains and dividends could be collected through this account during the year 2014. Accordingly, the primary objective of maintaining this account was to earn higher capital gains and dividends as well as to fulfill the working capital requirements incidentally arises while granting benefits to the members, through re-invest the funds collected to this account.

- (d) Out of the 178,700 shares of Veyangoda Textiles Mills (Veytex) 123,700 shares had been purchased by two Investment Management companies then involved in share purchase activities of the Board (MBSL & CFM). The balance of 55,000 had been purchased by the Board.

Even though these shares had been delisted from the share market in March 2004, the Company had been re-registered under the new Companies Act in 2010. Hence, the Board had been attempted to search the directors of the company, but it was not fulfilled. It was confirmed that there was not an office in the address given for the registration. Further, the names of the 10 major share- holders of the company had been traced from the Central Depository Systems (Pvt) Limited. The main investor of the company is a Foreign Investor while the second and third investors are Ceybank Unit Trust and Comtrust Equity Fund.

Inquiries were made from those two investors regarding the Veytex investments, and their response was that they have also written off those investments from their books. Accordingly, the Board of Directors have decided to write off the investments from the books after taken every effort to recover the investment.

- (e) The value of amount invested in Promissory Notes of Vanik Incorporation

Was Rs. 12,174,382.19 and the break-up of this amount is given below.

|   |                   |
|---|-------------------|
| Unpaid balance amount of Promissory Notes issued for interest receivable on Rs. 15 million Debentures             | Rs. 11,262,382.19 |
| The value of Promissory Notes issued for Interest receivable for the year 2011 on Debentures issued on 10.12.1997 | Rs. 912,000.00    |
| The total value converted to Promissory Notes   | Rs. 12,174,382.19 |

**Rs. 11,262,382.19**

The rate of interest relevant to promissory notes started on 01st January 2002 Rs. 15 million was 15.50%. The interest relevant to promissory notes as well as capital to be paid in installment basis and the interest and capital repayment had been settled up-to July 2002. No payment was done after that and the balance of promissory notes payable was Rs. 11,262,382.19.

**Rs. 912,000.00**

The capital invested on Debentures of Vanik Incorporation on 10.12.1997 was Rs. 7,450,250 .00 (Par Value of Rs. 6,080,000.00) and the rate of interest was 15.75%. The interest had been paid up-to 2000 and the unpaid interest for year 2001 was Rs. 912,000.00 and it was converted to Promissory Note. The said value of promissory note had not been paid up-to date.

**The Value Invested in Vanik Incorporation is amounting to Rs. 7,450,259/=**

Even after the restructuring of the company, the amount invested in 1997 had to be paid from 2007 to 2011 had also been defaulted.

Currently a case is being pending for Vanik Incorporation next date of hearing will be on 16.11.2015.

- (f) Elkaduwa Plantation Company (Rs. 12,291,556.16)

An amount of Rs. 12,291,556.16 had been shown as interest receivable on Rs. 15 million invested in debentures of Elkaduwa Plantation Company in 1994 on a decision of Cabinet of Ministers.

At the discussions held with the relevant parties, it was agreed to settle this amount in installments of Rs. 500,000 in monthly basis. Accordingly, the 1st installment was paid in January 2011 and 11 installments had been paid up-to November 2011 and the balance had been in arrears. The company had informed the Chairman by their letter dated 11.09.2013 that currently, the Elkaduwa Plantation Company is being under financial difficulty, and they would settle the dues as early as possible when they received the funds as agreed upon. Further, the Board had informed them that a legal action would be executed for the recovery of these amounts by a letter dated 04.08.2014. The decision on this litigation had been referred to the General Treasury on 16.06.2015 and the plantation company had informed on 07.07.2015 that they would take action with the Secretary to the Ministry of Plantations regarding their financial difficulty.

- (g) These shares had been sold on the approval of the Board of Directors to minimize the capital losses that would be incurred as the shares had been purchased during 2010/11 or previously on higher purchase prices. Thus, the amount received as sale proceeds from these shares would have invested in companies of higher earnings and receive higher capital gains and dividends to minimize losses incurred on the sale of above shares was also an other objective of sale of these shares.
- (h) In the year 1997, 2,500,000 units of Namal Growth Fund had been purchased for Rs. 10.00 each. While Rs. 33,183,600 earned as capital gains in the years 2006, 2007 and 2009 by the selling of 1,500,000 units, and only dividends had been received in the year 1999 and 2001. The

main income of these units are only the capital gains received on sale of these units. While the market price of the unit as at 31.12.2014 was Rs. 137.72, the unrealized profit on an unit was Rs. 127.72. Since the market value of this investment is in continuous appreciation, these units are being retained to trade at a suitable occasion. Accordingly, when compared to the invested amount of Rs. 10 million, a capital gain of Rs. 127 million had been earned as at 31.12.2014. While comparing to the investment in Treasury Bills this investment could be considered as a high rated investment. Since this earnings are exceeding 5% and the calculations are done according to the accepted accounting principles and it would not be an erroneous accounting adjustment.

- (i) The amounts invested in shares mentioned in 12 companies in your observation had been made in the year 2010 and in the previous years. However, it is expected to earn profits when the share prices of these companies would be gone higher. Further, out of these companies a dividend of Rs. 429,888 had been received from two companies while a capital gain of Rs. 12,789,884 earned by selling of shares of another company.
- (j) The reports on share market transactions had been prepared on the basis of Accounting Policies of the Board for the years 2013 and 2014 had been submitted to the audit. Accordingly the amounts invested, investment income and percentages of income for those two years are mentioned below.

| Year | No. of Companies | Amount Invested (as at 31st Dec.)<br>Rs. Million | Investment Income Received<br>Rs. Million | Percentage % |
|------|------------------|--|---|--------------|
| 2013 | 94               | 7,281  | 327                                       | 4.5          |
| 2014 | 85               | 8,484  | 1,081                                     | 12.7         |

When compared to the above results, 130 companies prevailed as at 2011 were reduced to 85 in 2014 which could be in manageable position and development in investment income had been shown in the year 2014. Thus, the number of companies as at August 2015 had been reduced to 50.

#### 4.3 Transactions of Contentious Nature

Overtime payments to staff of the Board are being paid in accordance with the provisions of Establishment Code and Shop & Office Act.

Since this is a semi Government Institution, leave had been granted in compliance to the other Corporations and Boards. The 42 days of leave entitlement of Board employees to reduce to 21 days for a year in accordance with Shop & Office Act may create an industrial dispute among the employees was the recommendation of the Employers' Federation of Ceylon according to their letter dated 01.04.2014. A copy of their recommendation is attached herewith (Annex No. 03). The crack-down of industrial peace would affect adversely to the improvements of the institution.

#### 4.4 Identified Losses

It's not agreeable with your observation.

The two third of the vehicles mentioned in this audit inspection were 19 years old and the other vehicle also 06 years old. A capital gain of Rs. 2,791,358 had been earned when sale proceeds of the vehicles, compared to the written down value of the motor vehicles.

### 5 Accountability and Good Governance

#### 5.1 Internal Audit

The following activities had been done by the Internal Audit Division during the year under review.



## Pre Audit Functions

| <b>Payment of Benefits</b>                   | <b>No. of Claims Checked</b> |
|--|------------------------------|
| Normal Benefits                              | 104,797                      |
| Self-Employment Benefits                     | 697                          |
| Permanent Disability                         | 58                           |
| Insurance Benefits                           | 2,763                        |
| Heart Surgery Benefits                       | 535                          |
| Eye Surgery Benefits                         | 558                          |
| Death Benefits                               | 1,143                        |
| Srama Suwa Rekawarana benefits               | 2,097                        |
| Kidney Transplant Benefits                   | 22                           |
| Advanced Level & Year 5 Scholarship Benefits | 7,686                        |
|  | <b>120,356</b>               |
| Staff Medical Bills                          | 13,318                       |
| <b>Total</b>                                 | <b>133,674</b>               |

Additionally, the pre audit of staff final payments, checking of staff monthly incentive rates, reimbursement of Viyana Housing Loan and State Mortgage Bank Housing Loan, Annual Bonus payments, Staff Annual Leave payments etc. had been attended.

In addition to the above pre audits, the following post audits had also been attended.

- Review of Progress of Contribution and Surcharge Income
- Checking of unrealized money orders
- Audit of returned benefits
- Investments
- Retained death benefits
- Unclaimed Refunds
- Loan Scheme for the Purchase of Vehicles
- Draft Financial Procedure
- Staff Vehicle Loans
- Valuation of Detailed Risks
- Payment of Salary Arrears and Allowances – EPF No. 123

All copies of internal audit reports had been submitted to the Auditor General.

Even though the priority had been given to pre audit of payments to out-side parties such as Scholarships, Member Benefits etc., it had been noted to give higher priority to the post audit functions in future.

## 5.2 Budgetary Control

While the total budgetary income for the year was Rs. 18,027, the actual total income was Rs. 18,833. Accordingly, the variance of total income was less than 5%. Further, the budgeted operational expenses were Rs. 1,551 while Rs. 1,559 was the actual operational expenditure. Accordingly, the variance of total expenditure was 0.5%. Therefore, the budgetary control of the Board had been maintained in a good manner, it is not agreeable with your observation.

## 6. Procedures & Controls

### (a) Accounting

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

(b) Amounts Receivable & Payable

A reply had been given under the paragraph 2.2.5.

© Investments

Since the target income had been exceeded through the investments during the year 2014 and 10% of interest and dividend could be declared. It was over the budgeted 9% for the year.

(c) Maintenance of Member Accounts

A special attention had been focused on maintaining member accounts, action would be taken to issue annual member statements to employers to be distributed among the members.



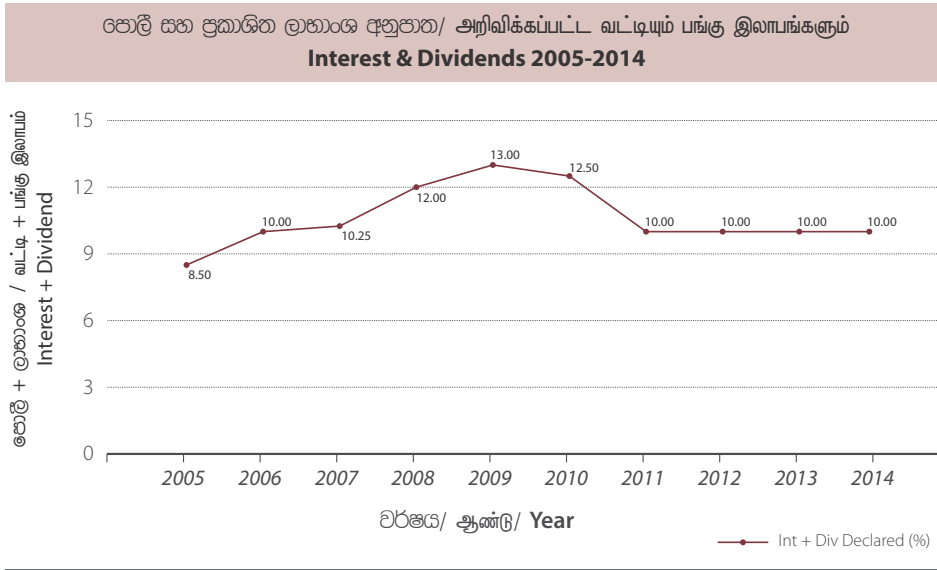
**Mahinda Madihahewa**  
Chairman / Chief Executive Officer  
Employees' Trust Fund Board.

കുറുനാലാമു ഘരൂരൂരൂ  
പുറുണുവുപര ഇണുണുപുകുറു  
STATISTICAL ANNEXURES

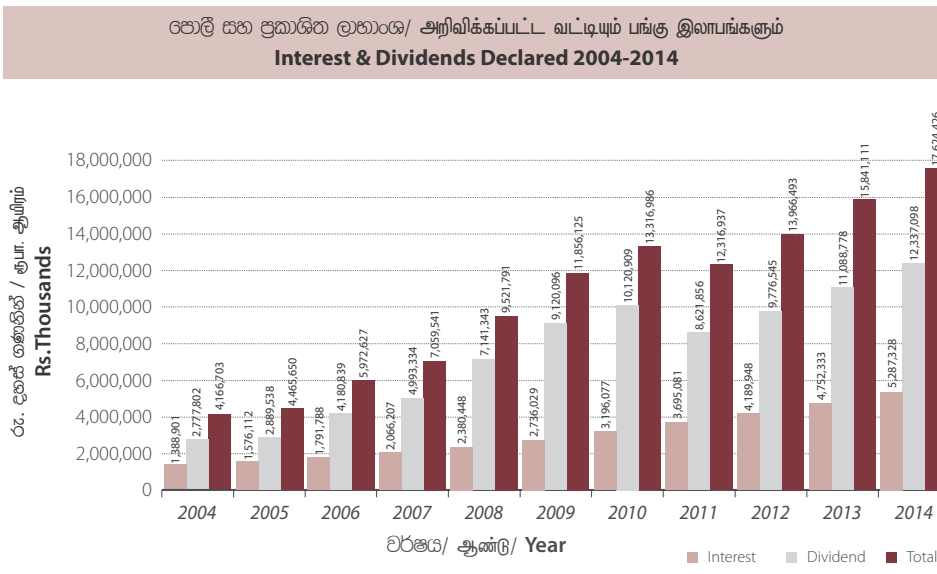
ANNUAL REPORT 2014

EMPLOYEES' TRUST FUND BOARD

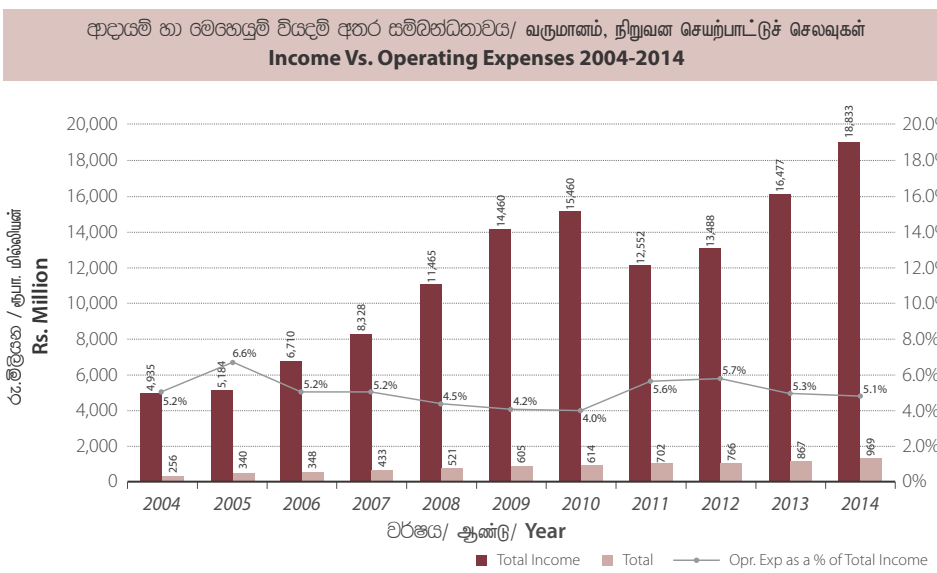
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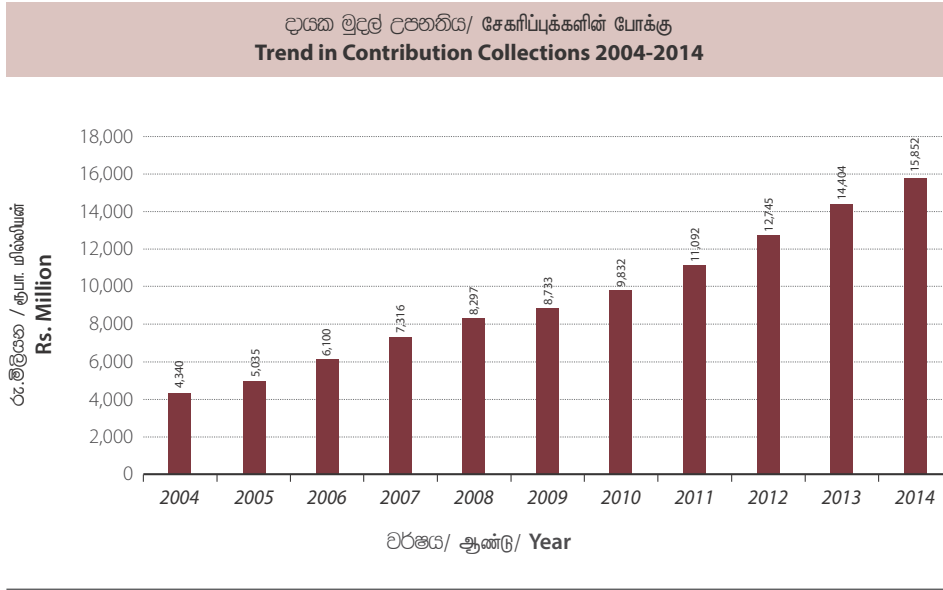


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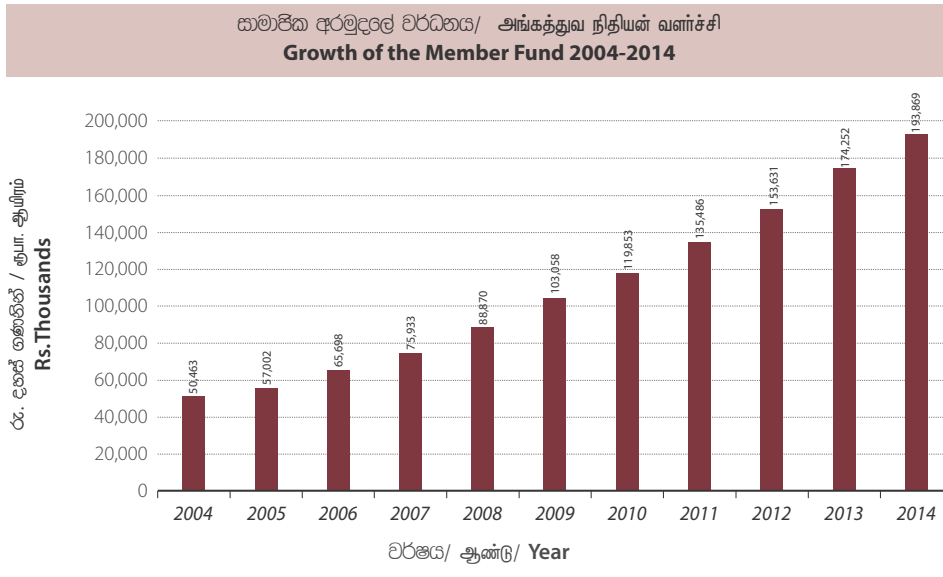


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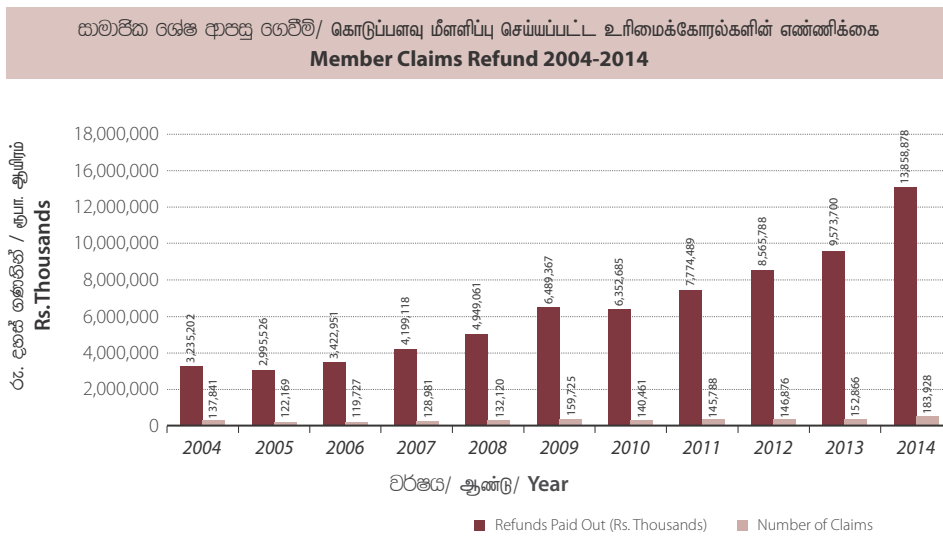




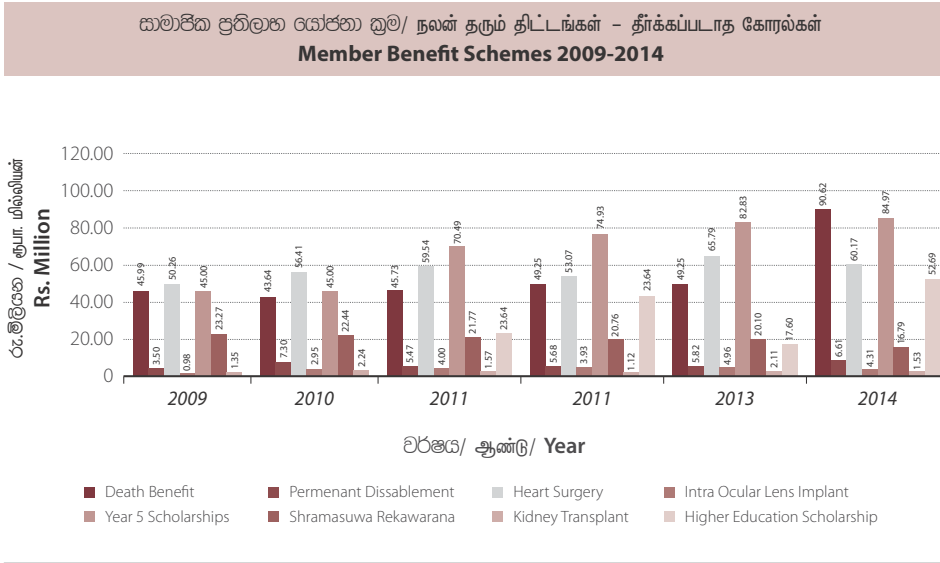
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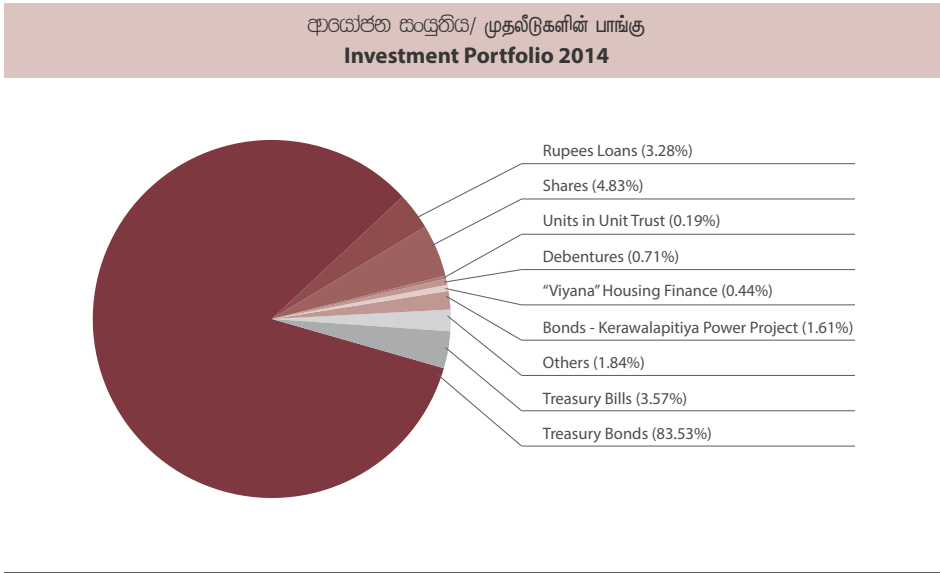
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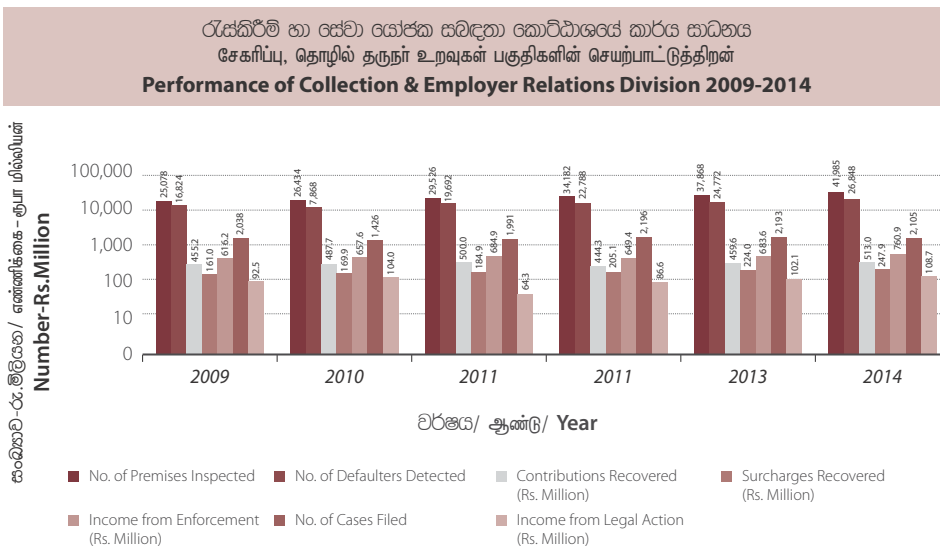
குசுபர / வரரபு / Graph - 07



குசுபர / வரரபு / Graph - 08



குசுபர / வரரபு / Graph - 09



அடிக்கை அடிக்கை/ மிக்கை அடிக்கை வடுக்கை  
**Surcharge Income 2004-2014**

