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ಆಂಡಢರಿಕಕಕ
Annual Report

2011



ಕಲಾ ಕಿಢ್ಢಕವಢಕಢ ಕಾರ ಅರಢ್ಢಲಢ ಢಷವಿಢಢ
ಁಢಢಿಢರ್ ಢಢಢಿಕಕಕಕಪ್ ಪೂಢುಪ್ಪ ಢಿಢಿಢಷ್ ಸಪಾ
EMPLOYEES' TRUST FUND BOARD

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ஆண்டறிக்கை
Annual Report

2011



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ஊழியர் நம்பிக்கைப் பொறுப்பு நிதியச் சபை
EMPLOYEES' TRUST FUND BOARD



Employees' Trust Fund Board

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



2011 - Annual Report

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2011 - Annual Report

Board of Directors

As at 31st December 2011

Mr K M A Godawatte

Chairman/CEO

Appointed by the Hon. Minister of Finance

Mr G Tissakuttiarachchi

Working Director

Appointed by the Hon. Minister of Finance

Mr P A S Panditharatne

Director

Appointed by the Hon. Minister of Finance

Mr U S Abeyratne

Director

Appointed by the Hon. Minister of Finance

Mr P A Abeysekara

Director

Treasury Representative

Mr C L K P Jayasuriya

Director

Representative of Employers' Federation of Ceylon

Mr Ranjith Hettiarachchi

Director

Trade Union Representative

Mrs Deepa Weerasooriya

Board Secretary



2011 - Annual Report

Senior Management

As at 31st December 2011

Chairman/CEO

Mr K.M.A Godawatte

Working Director

Mr G. Tissakuttiarachchi

Additional General Manager

Mr M.C.H Gunaratne

Deputy General Managers

Mrs R.N. Gnanasekera	(Investment)
Mr J.M.S.B. Udugama	(Collection & Employer Relations)
Mr W.S. Dissanayake	(Member Services)
Mr L.H. Nihal	(Administration & Human Resources)
Mr K.S. Weliwita	(Internal Audit)
Mr N.W. Wimalaweera	(Finance)

Assistant General Managers

Mr C. Mallikarachchi	(Member Accounts)
Mr K.G.I. Amarasinghe	(Enforcement / Self Employment)
Mr H.M. Seneviratne.	(Member Services)
Mr W. Sooriyarachchi	(Enforcement) - Region i
Mr A.J.M.S. Jayasundara	(Enforcement) - Region ii

Our Vision

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

Our Mission

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

Corporate Values

Trust
Honesty and Integrity
Accountability
Team Sprit
Reward and Recognition
Hospitality
Commitment
Responsiveness
Creativity & Innovation

**Report of the
Board of Directors
2011**





REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2011

The Board of Directors of the Employees' Trust Fund Board herewith presents to all its members and employers the Annual Report and audited Financial Statements for the year 2011.

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 31 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 2011. Some achievements are highlighted below.

1. The total Contributions from employers for the year was Rs. 11.09 Billion which was an increase of Rs. 1.26 Billion than the previous year.
2. The total Investment income was Rs.13.1 Billion during year compared to Rs.15.2 Billion in 2010 showing a decrease of Rs.2.1 Billion while the value of the investment portfolio increased from Rs.119 Billion to Rs.134 Billion at the end of the year. The reason for the decrease in income was the reduction of fixed income interest rates during the year.
3. The Board earned a net profit of Rs. 12.2 Billion compared to Rs. 14.2 Billion in the previous year while Rs. 12.3 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.141 Billion at the end of the year.
5. The income on equities during the year was Rs. 719 Million compared to Rs. 1,334 Million during 2010. The decrease was due to the depressed Share Market during the second half of 2011.
6. Despite the overall drop in interest rates during 2011, we were able to declare a total rate of 10% to our members at the end of the year as interest and dividend for 2011. (See Graphs 1 & 2) This was an attractive rate compared to the rates offered by Banks/Financial Institutions to its customers in end 2011. A further Rs.03 Billion is available in the Dividend Equalization Reserve.
7. The operating expenses of the Fund which was 4.2% in 2010 increased to 5.2% during the year due to constant increases in recurrent expenditure such as staff salaries, fuel, electricity, water, postage etc. (See Graph 3)
8. The Regional office network continued to function effectively during the year with special attention focused on recovering of outstanding contributions and surcharges and legal dues. The decentralization of claims payment in the Gampaha, Kandy and Matara offices also continued successfully and attention was focused on commencing this operation in 03 other Regional offices in 2012.



9. The new Regional office established in Jaffna in November 2010 showed encouraging progress during 2011 with increased contributions by employers and more awareness by members regarding the benefits offered by the Fund.
10. The updating process of all Member accounts were carried out successfully during the year and succeeded in completing 97% of the backlog during the year. The balance which are complicated cases are being cleared at present. Arrangements had been made to send the Annual Member statement (AMS) to all active Members up to year 2010.
11. Enrolment of Self employed members continued to be given high priority during the year. The enrolment programme of Self-employed persons who have started small-scale business projects after obtaining loan facilities from Samurdhi Banks was enhanced during the year with about 28,000 members enrolled through the Samurdhi network. Further, constant contact was made with Dairy Farmers, Pre-School Teachers, Construction Industry Technicians, Artists, Three Wheeler Drivers for more enrolment, totaling a further 26,000 Members, in addition to the Samurdhi Members.
12. 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.
13. The Industrial relations between the Management and Trade Unions continued to be cordial and healthy while such relationships greatly assisted in the progress made by the Board in all functional areas during the year.

The Principal activities of the Board continued as follows during 2011.

Collection of Contributions and Maintenance of Member Accounts

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

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

A total of 4310 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 2011 had increased to 67,041. Similarly the total contributions received from the employers in respect of their employees during 2011 was Rs 11.09 Billion compared to Rs. 9.83 billion in 2010. (See Graph 4) Further, the value of the Member's Fund increased from Rs. 119.9 Billion to Rs.135.5 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 2011, 145,788 refund claims were processed and the total amount paid was Rs 7.8 Billion. Comparatively during 2010, 140,461 Claims were processed and the value was Rs 6.4 Billion. During the year the average amount paid per claim increased to Rs 53,502 from Rs 45,565 in the previous year. (See Graph 6) The outflow on claim payments showed a marginal increase during the year. During 2011, 4,153 benefit claims were processed and the total amount paid was Rs 138 Million. Comparatively during 2010, 4,186 claims were processed and the value was Rs 135 Million. Rs 69.7 Million was deposited in People's Bank in year 2011 on behalf of the 4,649 children of members who had passed the Year Five Scholarship Examination in the year 2010. (See Graph 7)

Similarly Rs 23.6 Million was paid in year 2011 to 1,970 children of members who had passed the G.C.E (A/L) examinations under 4 streams in the year 2010.

Rs 48.1 Million was released in year 2011 to the NDB Bank on behalf of Viyana Housing Loan scheme to facilitate 47 members to obtain housing loans.

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

1. Automatic Life Insurance Benefits: Maximum Rs. 50,000/-
2. Financial Assistance for Heart Surgery: Maximum Rs 150,000/-
3. Financial Assistance for Kidney Transplants: Maximum Rs 150,000/-
4. Total & Permanent Disability Benefits: Maximum Rs 200,000/-
5. Reimbursements of cost of Intra-Ocular Lens: Rs 18,000/- for both eyes
6. Financial awards for Year Five Scholarship holders (Children of ETF Members) - 5000 Scholarships of Rs 15,000/- each annually.
7. "Shramasuwa Rekawarana" Hospitalization Scheme: Maximum Rs 25,000/- per year Maximum Rs 50,000/- for life time.
8. "Viyana" Housing Loan Scheme with concessionary rates of interest.
9. Year Five Scholarships for children of ETF members who had to terminate employment due to permanent disability.
10. Financial grant for children of ETF members who passed GCE (A/L) - 10,000 Scholarships of Rs 12,000/- each annually.



Maintenance of Member Accounts

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

The total number of active and inactive members of the fund as at the end of the year was approximately 9.6 Million. The fund maintains member accounts for all the active and inactive members.

9,288,912 member accounts were updated up to year 2010 as at 31-12-2011 and it is approximately 97% of the total estimated number of member accounts. Out of these accounts 7,322,376 were inactive while 1,966,536 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. 119 Billion to Rs.134 Billion in 2011 which an increase of 12.6% over the previous year.

During the year 2011 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 Rs.120.73 Billion (89.4%) was invested in Government Securities and Rs. 2.99 Billion (2.2%) invested in Government Guaranteed Fixed Income Instruments whilst Rs. 6.87 Billion(5.1%) was invested in equities.

The Board has earned a profit of Rs.703 Million on shares by way of dividends and capital gains as compared Rs.1,309 Million in the previous year. The decrease was due to the depressed share market conditions which prevailed during the latter part of 2011. (See Graph 8)

During the year 2011, ETF yielded an investment income of Rs.13.13 Billion as against Rs.15.26Billion in 2010 which was a decrease of 13.96% The decrease in the investment income was mainly due to the continuous declining trend in the rate of Government Securities prevailed during 2010 & 2011. The Board is also looking to invest in rated commercial papers and debentures as alternative sources of Investment to maintain the income targets.

Collection & Employer Relations

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

As stated earlier a new Regional office was opened in Jaffna in 2010 to cater to the need of employers



& Members in the Northern Region which is performing well. With this the total number of Regional offices increased to 17. The Management continued to strengthen the operations of these Regional Offices with the deployment of competent Graduate Trainees for Enforcement work.

A scheme was introduced in the year 2011 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 2011 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 220 employers are paying Contributions through the Internet.

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

	<u>2011</u>	<u>2010</u>
No. of Premises Inspected	29,526	26,434
No. of Defaulters Detected	19,692	17,868
No. of Cases filed	1,991	1,426
Contributions Recovered through Enforcement (Rs . million)	500	487.7
Surcharges Recovered (Rs . million)	184.9	169.9
Income from Legal Activities (Rs . million)	64.3	104.0
	(See Graphs 9 – 10)	

Administration/Human Resources

During the year under review, there were 43 new staff recruitments to the various Divisions of the Board while 22 No. of persons left the services of the Board due to retirements, resignations, terminations etc. In addition 55 No. of staff members were promoted to higher Grades. By end of the year the total employees of the Board had reached 896.

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 were also exposed to relevant Training programs to enhance their capabilities. The Supplies and Stores management and Tender Board functions and the Transport / Maintenance functions also continued to be handled by this Division.



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, Balanced Scorecard, Action plan, Annual Report, Observations on Audit Queries, Financial information to external agencies and other financial documents are handled by this Division.

Further action has been taken to bring the Supplies management function under the Finance Division from 2012, for better financial management.

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. The Internal Audit Division also played a major role in the modification of software modules by the IT Division by providing advice on specific issues from the Audit angle. The Internal Audit plan for the year under review was also carried out successfully. Special investigations were also performed by this Division.

Technology

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

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

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

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



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

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

Amendments to the ETF Act

The ETF Act was not amended since 1993 and the Management decided that certain amendments to the Act were necessary in keeping with the current requirements and developments. Hence in early 2011 a special sub committee consisting of Board Members and Senior Officials studied the required amendments to the Act and made recommendations to the Board of Directors. Thereafter, the proposed amendments were approved by the Board and sent to the Secretary, Ministry of Finance & Planning. Concurrently these amendments were also referred to the National Labour Advisory Committee (NLAC) for study and comments. These proposals were discussed in detail at NLAC and will be finalized soon. Thereafter it will be sent to the Ministry of Finance & Planning and the Legal Draftsman for further formalities and we hope that these amendments could be presented to Parliament before the end of 2012.

Building for the ETF Head Office

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

In 2009 the Cabinet of Ministers decided to construct a new Office complex in the land belonging to the Labour Dep: in Narahenpita for the use of EPF / ETF and all other social security organizations in Sri Lanka. The foundation for the construction of this building was laid in December 2009. The Ministry of Labour is in –charge of the construction work. It has been agreed to allocate 14 floors of this building to ETF. Currently the piling work for the construction of this building has been completed while the Ministry of Labour is in the process of selecting the main contractor for the building. The construction of main building is expected commence in August 2012 and conclude in 2015. The ETF will enter into an agreement with the Ministry of Labour under the condominium Law for the ownership of the space. The payment for the spaces allocated to ETF will be made by ETF after obtaining required approval.

Special Projects

- 1) In early 2011 at the request of the Ministry of Finance & Planning, the ETF Board undertook to construct 02 Medical Officers quarters at the Dambagalla Rural Hospital in the Monaragala District in connection with the “Deyata Kirula Programme” held at the Monaragala District in 2011. The construction was completed and the quarters handed over to the Medical Officers in November, 2011. The total cost of the project was Rs 3.2 Million



- 2) In early 2011, the Management decided to construct a Circuit Bungalow and a dormitory for the use of ETF members at the premises owned by the Board in Anuradhapura. The construction for both commenced in October, 2011 and is expected to be completed by August, 2012. The total cost is estimated to be Rs. 33 Million.

Board of Directors

The Board of Directors of the Employees' Trust Fund as at the end of 2011 was as follows:

Mr. K.M.A. Godawatte

Chairman/CEO

Appointed by the Hon. Minister of Finance

Mr. G. Tissakuttiarachchi

Working Director

Appointed by the Hon. Minister of Finance

Mr. P. A. S. Panditharatne.

Director

Appointed by the Hon. Minister of Finance

Mr. U. S. Abeyratne.

Director

Appointed by the Hon. Minister of Finance

Mr. P. A. Abeyssekara

Director

Treasury Representative

(From January 2011)

Mr. C. L .K. P. Jayasuriya.

Director

Representative of Employers' Federation of Ceylon

Mr. Ranjith Hettiarachchi

Director

Trade Union Representative

Mrs. Deepa Weerasooriya

Board Secretary

There was a following change in the Board of Directors during 2011

Mr. P. Dharmadasa

Director

Appointed by the Hon. Minister of Trade

(From February to November 2011)



Senior Management

As at the end of 2011 the Senior Managerial positions of Employees' Trust Fund Board were as follows:

Chairman/CEO

Mr. K.M.A. Godawatte

Working Director

Mr. G. Tissakuttiarachchi

Additional General Manager

Mr. M.C.H. Gunaratne

Deputy General Managers

Mrs. R.N. Gnanasekera	(Investment)
Mr. J.M.S.B. Udugama	(Collection & Employer Relations)
Mr. W.S. Dissanayake	(Member Services)
Mr. L.H. Nihal	(Administration & Human Resources)
Mr.K S Weliwita.	(Internal Audit)
Mr.N.W.Wimalaweera	(Finance)

Assistant General Managers

Mr. C. Mallikarachchi	(Member Accounts)
Mr. K.G.I. Amarasinghe	(Enforcement / Self Employment)
Mr. H M Seneviratne.	(Member Services)
Mr. W. Sooriyarachchi	(Enforcement) - Region i
Mr.A.J.M.S.Jayasundara	(Enforcement) - Region ii

Conclusion

The Board of Directors greatly appreciates the support and guidance given by His Excellency the President who is also the Hon. Minister of Finance & Planning, Deputy Minister of Finance & Planning, the Secretary to the Ministry of Finance and Planning and all his officials. We also wish to convey our sincere thanks to all staff for working as a team in achieving a remarkable progress in all operational activities during the year of 2011. The success of any institution is, no doubt, linked intimately to the performance of its' staff, and thus, we are proud to have a very committed, dedicated and energetic workforce. Our appreciations extend to all trade unions for their unstinted co-operation and support extended to us. The dedication, loyalty, commitment and team work displayed by all the employees during the year in building a solid foundation and an organization that is totally committed towards serving its members is commendable.

Accounts for the year 2011





INCOME AND EXPENDITURE ACCOUNT

For the year ended 31st December

	Notes	2011 Rs.	2010 Rs.
INCOME			
Investment Income	1	13,126,827,076	15,257,737,682
Other Income	2	243,816,462	197,464,241
Total Income		13,370,643,538	15,455,201,924
Less: Income Tax	3	141,008,314	402,172,526
Income Net of Tax		13,229,635,224	15,053,029,398
LESS: EXPENDITURE			
Operating Expenses	4	699,470,956	613,698,390
Member Expenses	5	294,181,877	243,944,960
		993,652,833	857,643,351
Net Income after Expenses		12,235,982,391	14,195,386,047
Add: Provisions	6	(828,617,097)	118,542,789
Add: Retained Profit Brought forward		271,435,344	363,870,613
Less: Interest Paid on Refunds - Current Year		108,106,649	89,378,189
Net Income before Appropriations		11,570,693,989	14,588,421,261
Add: Dividend Equalization Reserve	7	1,000,000,000	(1,000,000,000)
Less: Interest on Members' Fund 3.0%		3,695,080,931	3,196,076,620
Dividend 7.0% (Year 2010 - 9.5%)		8,621,855,505	10,120,909,297
Retained Profit Carried Forward		253,757,553	271,435,344

Certified as Correct,

N.W. Wimalaweera
Deputy General Manager (Finance)

M.C.H. Gunaratne
Additional General Manager

K.M.A. Godawatte
Chairman / CEO

**BALANCE SHEET**

As at 31st December

	Notes	2011		2010
		Rs.	Rs.	Rs.
ASSETS				
NON-CURRENT ASSETS				
Property, Plant & Equipment	8		3,357,617,710	1,511,146,843
Capital WIP - Building Project			8,357,423	-
Long Term Investments	9		117,164,061,771	103,068,479,306
CURRENT ASSETS				
Stocks of Stationery & Printing Materials		4,933,319		3,763,586
Short Term Investments	10	16,895,480,875		15,818,389,708
Accounts Receivable	11	4,588,573,694		5,232,179,940
Cash & Bank Balances	12	366,615,131	21,855,603,019	265,992,240
			142,385,639,922	125,899,951,623
Less: NON-CURRENT LIABILITIES				
Provision for Gratuity	13		179,895,381	158,159,293
CURRENT LIABILITIES				
Accounts Payable	14	198,364,031		285,894,576
Bank Overdrafts	15	111,591,696	309,955,726	17,858,690
NET ASSETS			141,895,788,815	125,438,039,065
EQUITY				
Members Fund as at 01st January			119,852,873,251	103,057,082,969
Less: Contribution & Interest Paid - Previous Year			1,082,778	227,982
			119,851,790,473	103,056,854,987
Contributions received during the year		11,092,062,998		9,831,717,760
Less: Refunds made during the year		(7,774,489,115)	3,317,573,883	(6,352,685,413)
			123,169,364,356	106,535,887,334
Add: Interest on Members' Fund 3.00%		3,695,080,931		3,196,076,620
Dividend 7.00% (Year 2010 - 9.5%)		8,621,855,505	12,316,936,436	10,120,909,297
Members Fund as at 31st December			135,486,300,791	119,852,873,251
Add: Unappropriated Income & Reserves				
Retained Profit		253,757,553		271,435,344
Dividend Equalization Reserve Fund		3,000,000,000		4,000,000,000
Revaluation Reserve		3,155,730,470	6,409,488,024	1,313,730,470
			141,895,788,815	125,438,039,065

Certified as Correct,

N.W. Wimalaweera
Deputy General Manager (Finance)

M.C.H. Gunaratne
Additional General Manager

K.M.A. Godawatte
Chairman / CEO



CASH FLOW STATEMENT

For the year ended 31st December

	Notes	2011		2010	
		Rs.	Rs.	Rs.	Rs.
Cash Flow from Operating Activities					
Income - Investment Income		12,571,886,419		14,064,446,858	
Profit on Sale of Shares/Units		554,940,657		1,209,719,992	
Other Income		241,150,753		197,212,790	
			13,367,977,829		15,471,379,640
Less - Expenses					
Operating Expenses	16	(649,740,131)		(574,599,187)	
Financial Expenses		(2,659,355)		(2,253,151)	
Members Expenses	17	(190,584,105)		(187,420,388)	
			(842,983,591)		(764,272,726)
Operating profit before working capital changes			12,524,994,238		14,707,106,914
Changes in working capital					
(Increase)/Decrease in Stocks		(1,169,733)		(148,367)	
(Increase)/Decrease in Receivables		649,002,762		20,068,497	
Increase/(Decrease) in Payables		31,456,459		(22,429,789)	
			679,289,488		(2,509,659)
Cash generated from operations			13,204,283,726		14,704,597,255
Gratuity Payment		(5,379,228)		(3,091,563)	
Income Tax Payment		(263,797,150)	(269,176,378)	(390,660,076)	(393,751,639)
Net Cash flow from Operating Activities			12,935,107,349		14,310,845,617
Cash Flow from Investing Activities					
Upliftment of Investments		95,984,886,616		103,202,387,503	
Purchase of Investments		(111,991,677,345)		(120,968,391,476)	
Purchase of Fixed Assets		(31,071,336)		(34,523,848)	
Disposal of Fixed Assets		3,056,019		30,900	
Capital WIP-Building Project		(8,357,423)		-	
Net Cash flow from Investing Activities			(16,043,163,469)		(17,800,496,921)
Cash Flow from Financing Activities					
Contribution received		11,091,179,354		9,831,522,033	
Refunds		(7,774,489,115)		(6,352,685,413)	
Interest Paid		(108,305,783)		(89,410,443)	
5 Year Scholarship Payment/Refund		(73,374,449)		(44,870,688)	
Higher Education Scholarship Payment/Refund		(20,064,000)		-	
Net Cash Flow from Financing Activities			3,114,946,007		3,344,555,490
Net Increase in Cash & Cash Equivalents			6,889,886		(145,095,815)
Cash & Cash Equivalents at the beginning of the period			248,133,550		393,229,365
Cash & Cash Equivalents at the end of the year	18		255,023,435		248,133,550

**NOTES TO THE INCOME AND EXPENDITURE ACCOUNT**

For the year ended 31st December

Notes	2011 Rs.	2010 Rs.
1 INVESTMENT INCOME		
Interest on Fixed Deposit	1,783,507	100,000
Income From Debentures	104,475,486	133,096,725
Interest/Margin on Treasury Bonds	10,523,413,814	12,060,042,380
Dividends on Shares	148,111,605	124,279,322
Dividends on Units	16,243,652	16,419,028
Profit on Sale of Shares (Portfolio - I & II)	554,940,657	1,200,652,498
Loss on Sale of Shares (Portfolio - I & II)	-	(16,429,168)
Profit on Sale of Units	-	9,067,494
Margin on Treasury Bills	753,949,617	587,891,667
Interest on Repurchase Agreements	67,187,566	97,781,366
Interest on Rupee Loans	587,000,000	587,000,000
Interest on Investment Bonds	-	73,898
Interest on Money Market	1,049,987	841,003
Interest on Treasury Administrative Borrowings	-	20,838,904
Income on Viyana Housing Loan	91,040,635	96,646,315
Interest on Bonds - Power Project	277,630,549	339,436,252
	13,126,827,076	15,257,737,682
2 OTHER INCOME		
Property Income - Lease Rent	20,482,080	19,983,210
Surcharges	183,334,809	158,677,633
Interest on Distress Loans	367,080	243,934
Interest on Vehicle Loans	2,046,694	1,840,189
Interest on Special Distress Loans	3,897,679	3,624,412
Interest on Special Festival Loans	121,887	83,328
Interest on Computer Loan	6,545	
Interest on Staff Housing Loan - SMIB	2,569,277	2,498,979
Income on Express Claims	10,908,000	9,398,000
Gain/(Loss) on disposal of Fixed Assets	2,665,709	3,348
Sundry Income	17,416,702	863,105
Write-back of Unpaid Staff Emoluments	-	248,103
	243,816,462	197,464,241



NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

For the year ended 31st December

Notes	2011 Rs.	2010 Rs.
3 INCOME TAX		
Income before tax as per the income statement	13,370,643,538	15,455,201,924
Add: Notional Tax		
- Interest on Treasury Bond	1,169,268,202	1,046,778,144
- Repurchase Agreements	7,465,285	10,864,596
- Margin on Treasury Bills	83,772,180	65,321,296
	<u>14,631,149,205</u>	<u>16,578,165,960</u>
Less: Exempted Items		
Exempt Dividend on Units	16,243,652	16,419,028
Exempt Dividend on Shares	37,706,548	38,293,408
Profit on Sale of Shares	554,940,657	1,184,223,330
Profit on Sale of Units	-	9,067,494
Profit on Disposal of Fixed Assets	2,665,709	-
Expenditure apportionment to the Other Income	4,452,838	4,272,073
	<u>616,009,404</u>	<u>1,252,275,333</u>
Taxable Income	14,015,139,801	15,325,890,627
Tax Rate	10%	10%
Gross Tax expenses	<u>1,401,513,980</u>	<u>1,532,589,063</u>
Less: Tax Credits		
Notional Tax	1,260,505,666	1,130,416,537
Net Tax expense	<u>141,008,314</u>	<u>402,172,526</u>

**NOTES TO THE INCOME AND EXPENDITURE ACCOUNT**

For the year ended 31st December

Notes	2011	2010
	Rs.	Rs.
4 OPERATING EXPENSES		
4.1 Directors' Emoluments		
Salaries	1,280,000	840,000
Director's Fees	379,500	91,500
Total	1,659,500	931,500
4.2 Personnel Expenses		
Salaries	214,796,218	192,990,656
Cost of Living Allowances	60,515,360	54,218,318
E.P.F. Board's Contribution	43,561,301	39,992,725
E.T.F. Board's Contribution	8,712,918	7,995,141
P.A.Y.E. Tax	3,429,042	3,437,159
Recruitment, Training & Development	1,693,013	2,788,019
Staff Welfare	18,353,944	17,230,068
Overtime	14,092,107	11,911,028
Holiday Pay	8,613,844	7,054,537
Incentive	74,845,611	59,960,950
Encashment of Leave	8,094,217	8,609,517
Bonus	44,482,478	40,178,847
Gratuity	26,652,587	12,824,237
Reimbursement of Medical Expenses	29,687,036	25,406,244
Interest on Housing Loans	7,942,535	7,546,225
Employees' Accident Compensation Scheme	1,647,856	225,000
	567,120,068	492,368,671
4.3 Establishment Expenses		
Depreciation	20,303,987	16,763,233
Building Rent	31,127,266	29,436,806
Rates	545,023	395,721
Electricity Charges	15,103,126	12,134,202
Telephone Charges	6,575,335	6,418,686
Water Charges	1,358,705	1,202,997
Consultancy Fees	1,214,500	1,167,332
Audit Fees	553,970	797,674
Security Charges	4,576,961	3,199,678
Legal Fees	876,214	989,546
Hiring Charges	-	98,341
Secretarial Expenses	300,000	300,000
Postage & Telegrams	2,072,960	1,995,623
Travelling & Subsistence	1,296,077	1,278,235
Printing & Stationery	1,097,001	1,269,267
IT Expenses	1,063,607	1,045,700
Advertisement & Press Notices	1,968,604	1,028,079
Vehicle Insurance & License Fees	2,227,346	1,893,100



NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

For the year ended 31st December

Establishment Expenses - Cont'd

Notes	2011 Rs.	2010 Rs.
Newspapers & Periodicals	599,525	460,239
Donations	853,440	449,815
Other Insurance	44,445	45,239
Office Upkeep & Requirements	648,448	747,284
Stamp Duty	10,260	1,400
Miscellaneous Expenses	2,821,828	1,996,847
Vehicle Repairs & Maintenance	11,073,083	9,421,820
Fuel Charges	11,795,724	10,548,455
Maintenance of Building	5,831,737	4,653,983
Maintenance of Furniture & Equipments	1,977,967	1,147,185
Total	<u>127,917,137</u>	<u>110,886,486</u>
4.4 Financial Expenses		
Custodial Fee	235,200	215,600
Bank Charges	2,406,705	2,019,518
Fixed Assets Written-off	-	2,099,288
Bad Debts Written Off	103,484	15,423
Loss on Petty Cash	11,412	-
Release of writing back claims	17,450	18,033
Provision for Doubtful Debts	-	5,143,871
	<u>2,774,251</u>	<u>9,511,733</u>
Total Operating Expenses	<u><u>699,470,956</u></u>	<u><u>613,698,390</u></u>

**NOTES TO THE INCOME AND EXPENDITURE ACCOUNT**

for the year ended 31st December

Notes	2011 Rs.	2010 Rs.
5 MEMBER EXPENSES		
5.1 Members' Benefits		
Death Benefits Scheme	45,730,216	43,638,384
Permanent Disablement Scheme	5,473,887	7,299,838
I.O.L. Implanting Scheme	3,997,040	2,947,810
Sramasuwa Rekawarana Scheme	21,773,206	22,442,234
Heart Surgery Scheme	59,539,543	56,410,575
Kidney Transplant Scheme	1,573,873	2,235,281
Year 5 Scholarship Scheme	70,485,000	45,000,000
Higher Education Scholarship Scheme	23,640,000	-
	<u>232,212,765</u>	<u>179,974,122</u>
5.2 Members' Services		
Postage & Telegrams	18,656,657	17,952,475
Printing & Stationery	9,873,009	11,380,949
Computer Stationery	4,070,408	3,279,819
Employees Awareness Scheme	438,765	751,592
Travelling & Subsistence	4,355,145	4,082,939
Media & Publicity	2,233,131	7,197,253
Medical Consultation for Members	23,200	18,400
Year 5 Scholarship Expenses	3,566,599	385,680
Deyatakirula Exhibition & CSR Project	4,602,203	-
	<u>47,819,118</u>	<u>45,049,107</u>
5.3 IT Services		
Maintenance of Hardware	4,106,602	4,087,169
Maintenance of Software	146,925	158,907
Depreciation	5,906,173	11,138,892
Insurance	-	288,059
Rental on Leased Lines	3,990,294	3,248,704
	<u>14,149,994</u>	<u>18,921,731</u>
Total Member Expenses	<u>294,181,877</u>	<u>243,944,960</u>
6 PROVISIONS		
Diminution in value of Shares - Over/(Under) Provision	(835,617,097)	100,542,789
Doubtful Income - Over Provision	5,500,000	-
Doubtful Capital - Over Provision	1,500,000	18,000,000
	<u>(828,617,097)</u>	<u>118,542,789</u>
7 DIVIDEND EQUALIZATION RESERVE		
Transferred to Dividend Equalization Reserve Fund	-	(1,000,000,000)
Transferred from Dividend Equalization Reserve Fund	1,000,000,000	-
	<u>1,000,000,000</u>	<u>(1,000,000,000)</u>



Note 8

PROPERTY, PLANT & EQUIPMENT

	Real Estate	Computers	Other Equipments	Furniture	Motor Vehicle	Fixtures & Fittings	Computer Software	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<u>Cost / Valuation</u>								
Balance as at 01.01.2011	1,378,000,000	120,108,473	20,314,110	24,937,505	110,979,263	15,809,800	3,232,004	1,673,381,155
Revaluation	1,842,000,000	-	-	-	-	-	-	1,842,000,000
Additions	-	8,077,361	2,062,178	3,767,413	17,164,384	-	-	31,071,336
Disposals	-	999,506	290,281	311,245	4,442,675	-	-	6,043,707
Transfers / Adjustments	-	-	-	(93,177)	-	-	-	(93,177)
Balance as at 31.12.2011	3,220,000,000	127,186,328	22,086,007	28,300,496	123,700,972	15,809,800	3,232,004	3,540,315,607
<u>Accumulated Depreciation</u>								
Balance as at 01.01.2011	-	62,119,233	12,441,965	13,284,543	57,628,327	14,929,742	1,830,503	162,234,311
Depreciation for the Year	-	6,982,256	1,673,783	1,891,643	15,010,770	252,497	399,210	26,210,160
Disposals	-	855,020	258,748	239,724	4,299,905	-	-	5,653,397
Transfers / Adjustments	-	-	-	(93,177)	-	-	-	(93,177)
Balance as at 31.12.2011	-	68,246,469	13,857,000	14,843,284	68,339,192	15,182,239	2,229,713	182,697,897
<u>Written Down Value</u>								
As at 31.12.2010	1,378,000,000	57,989,240	7,872,145	11,652,963	53,350,936	880,058	1,401,501	1,511,146,843
As at 31.12.2011	3,220,000,000	58,939,859	8,229,006	13,457,212	55,361,780	627,561	1,002,291	3,357,617,710

**NOTES TO THE BALANCE SHEET**

As at 31st December

	2011	2010
	Rs.	Rs.
Notes		
9 LONG-TERM INVESTMENT		
Government Securities		
Treasury Bonds	105,730,365,236	91,617,071,316
Rupee Loans	6,100,000,000	6,100,000,000
	<u>111,830,365,236</u>	<u>97,717,071,316</u>
Others		
Debentures - Quoted (M/V Rs.150,000,000)	150,000,000	157,450,259
- Unquoted	947,450,259	931,500,000
Promissory Notes	12,174,382	12,174,382
Shares - Unquoted	485,834,544	485,834,544
	<u>1,595,459,185</u>	<u>1,586,959,185</u>
Less: Provision for Diminution in value of Shares	-	(45,891,044)
Provision Against Doubtful Capital	(19,624,641)	(21,124,641)
	<u>1,575,834,544</u>	<u>1,519,943,500</u>
Housing Finance - NDB Bank	765,861,991	839,464,490
Bonds - Kerawalapitiya Power Project	2,992,000,000	2,992,000,000
	<u>5,333,696,535</u>	<u>5,351,407,990</u>
	<u>117,164,061,771</u>	<u>103,068,479,306</u>
10 SHORT-TERM INVESTMENT		
Government Securities		
Treasury Bills	8,900,869,526	9,910,864,055
	<u>8,900,869,526</u>	<u>9,910,864,055</u>
Others		
Shares - Quoted (M/V Rs.6,316,112,303)	7,228,104,571	4,718,542,735
Less: Provision for Diminution in value of Shares	(911,992,269)	(30,484,127)
	<u>6,316,112,302</u>	<u>4,688,058,607</u>
Fixed Deposits	300,200,000	1,000,000
Units - Quoted (M/V Rs.255,361,006)	77,744,046	77,744,046
Repurchase Agreement	1,300,555,000	1,140,723,000
	<u>7,994,611,348</u>	<u>5,907,525,654</u>
	<u>16,895,480,875</u>	<u>15,818,389,708</u>



NOTES TO THE BALANCE SHEET

As at 31st December

Notes	2011 Rs.	2010 Rs.
11 ACCOUNTS RECEIVABLE		
Interest Receivable	3,260,625,621	3,990,989,148
Less: Provision against Doubtful Income	(27,865,633)	(33,365,633)
	3,232,759,988	3,957,623,515
Contribution Receivable	961,345,946	830,072,745
Distress Loan	15,894,084	6,341,698
Special Distress Loan	132,333,360	127,814,928
Festival Advance	910,975	972,175
Special Festival Loan	875,400	550,100
Special Advance	3,473,000	3,652,000
Vehicle Loan	67,765,400	58,021,963
Computer Loan	287,784	-
Postal Franking Machine Imprest	234,293	96,249
Sundry Debtors	2,743,747	78,718,965
Dues From Ex-Employees	967,811	623,719
Security Deposits	2,926,800	2,790,300
Prepayment	7,717,723	14,125,149
Advance Payment	2,775,634	1,621,307
Overpayment Of Claims	2,280	2,280
Deposit - Summervill & Co.	21,900,000	21,900,000
SMIB Staff Housing Loan - Loan Staff	119,185,346	117,227,225
SMIB Staff Housing Loan - Undisbursed Balance	10,453,627	9,868,106
Medical Advance	45,000	150,000
Loan-Tsunami Relief	7,497	7,497
Sports Club	-	20
Tax Paid in Advance	3,968,000	-
	4,588,573,694	5,232,179,940

**NOTES TO THE BALANCE SHEET**

As at 31st December

Notes	2011 Rs.	2010 Rs.
12 CASH & BANK BALANCE		
People's Bank - C/A147	676,635	1,002,960
People's Bank - C/A.148	163,983	130,187
People's Bank - C/A.151	7,851	7,797
People's Bank - C/A-150	1,253,957	431,184
People's Bank - C/A249	-	219,463
Commercial Bank - C/A.432	6,277,899	1,530,193
Commercial Bank - C/A.5092-1	1,535,757	1,451,474
Commercial Bank - C/A.5092-2	1,685,030	1,591,680
Commercial Bank - C/A.3370	350,205	374,357
Commercial Bank - C/A.800	-	2,003,932
Hatton National Bank - C/A.7017	-	121
Standard Chartered Bank - C/A556	1,764	5,838,577
Bank of Ceylon - C/A 1839	354,159,770	251,008,916
Bank Of Ceylon - C/A 4195	52,982	53,503
Bank Of Ceylon - C/A 274	243,443	71,598
Bank Of Ceylon - C/A-300	205,856	276,299
	366,615,131	265,992,240
13 PROVISION FOR GRATUITY		
Balance B/F	158,159,293	148,956,078
Current Year Provision	26,652,587	12,832,119
Gratuity Paid	(5,379,228)	(3,099,445)
Transferred to Sundry Creditors	-	(749,090)
Transferred from Sundry Creditors	462,730	219,630
Balance C/F	179,895,381	158,159,293



NOTES TO THE BALANCE SHEET

As at 31st December

Notes	2011 Rs.	2010 Rs.
14 ACCOUNTS PAYABLE		
Sports Club	1,220	-
Retained Tax on Claims & Benefits Paid	5,133,956	4,589,382
Provision For Audit fee	1,550,000	4,042,549
Provision For Telephone	179,059	59,213
Provn. for Employees' Accident Compensation Scheme	2,000,000	2,000,000
Provision for Bonus	341,312	149,222
Provision for Leave Encashment	6,895,144	6,570,000
Provision for Postage	1,524,580	1,461,721
Stamp Duty Payable on Claims	407,570	386,445
Unpaid Emoluments	114,775	116,683
Stamp Duty Payable on Salaries	62,325	54,600
Superintendent of EPF	8,327,287	7,278,381
Commissioner General of Inland Revenue	71,710,608	194,499,444
Sundry Creditors	67,651,660	39,916,592
Unclaimed Refunds	4,575,055	3,555,679
Underpayment of Claims	3,229	3,229
Unpaid Death Benefits	7,017,309	6,699,317
Provision for Higher Education Scholarship	3,576,000	-
P.A.Y.E. Tax	2,703,710	118,709
Retained W.H.T	-	544,561
VAT	208,992	209,228
VAT Withholding Provisions	-	174,085
N.B.Tax	34,760	53,753
Unclaimed Scholarship	2,451,941	1,774,791
Returned Benefit	11,749,478	11,485,846
Salary Deductions Clearance	144,062	151,146
	198,364,031	285,894,576
15 BANK OVERDRAFT		
People's Bank C/A 149	6,534,623	17,858,690
People's Bank C/A-249	102,145,699	-
Commercial Bank C/A-800	2,911,374	-
	111,591,696	17,858,690

**NOTES TO THE CASH FLOW STATEMENT**

for the year ended 31st December

Notes	2011		2010	
	Rs.	Rs.	Rs.	Rs.
16 Operating Expenses		699,470,956		613,698,390
Less : - Depreciation	(20,303,987)		(16,763,233)	
- Gratuity	(26,652,587)		(12,824,237)	
- Financial Expenses	(2,774,251)	(49,730,825)	(9,511,733)	(39,099,203)
		<u>649,740,131</u>		<u>574,599,187</u>
17 Members Expenses		294,181,877		243,944,960
Less : - Depreciation	(5,906,173)		(11,138,892)	
- Year 5 Scholarship Fund	(74,051,599)		(45,385,680)	
- Scholarship Fund (Higher Education Scholarship fund)	(23,640,000)	(103,597,772)	-	(56,524,572)
		<u>190,584,105</u>		<u>187,420,388</u>
18 Cash & Cash Equivalent				
Cash & Bank Balances		366,615,131		265,992,240
Bank Overdrafts		(111,591,696)		(17,858,690)
		<u>255,023,435</u>		<u>248,133,550</u>



NOTES TO THE ACCOUNTS

(19) Provision For Doubtful Income

A provision of Rs.27,497,905 has been made in respect of interest income due from Debentures where the investments have been made prior to 1999. Rs.367,728 has been provided for income due from Promissory Notes invested in year 2002.

(20) Provision For Doubtful Capital

A provision of Rs.7,450,259 has been made in respect of capital due on Debentures which have been invested prior to 1999 and Rs.12,174,382 capital due on Promissory Notes invested in year 2002.

(21) Bad Debts

The parking fees due from Car Park customers amounting to Rs.103,484 has been written off as bad debts after establishing its unrecoverability.

(22) Interest Income

Annual interest income of Rs.668,800 receivable on Debentures and Rs.1,889,309 on Promissory Note due from Vanik Incorporation Ltd have not been recognized in the accounts on accrual basis since 2003, due to such interest payments are in arrears for a considerable period of time. In case such interest is recovered subsequently, it will be recognized in the accounts in the year of receipt. Further the Elkaduwa Plantation has agreed to settle interest arrears in Rs.500,000 monthly installments. Accordingly Rs.5.5 million has been recovered during year 2011.

(23) Litigation

An amount of Rs.21,900,000 has been deposited with Sommerville & Co. Ltd in the year 2005 under court order. This deposit has been made in relation to the claim made by this Company against the Employees' Trust Fund Board for breaching of a trade agreement. However, Employees' Trust Fund Board has appealed against this decision and the matter has been referred to Commercial High Court in Colombo.

(24) Capital Work-in Progress

Work has been commenced during November 2011, in the construction of Holiday Bungalow and community centre for Employees' Trust Fund Board in Anuradhapura. As at 31/12/2011, Rs.8,357,423 has been incurred for the construction work. The project work is scheduled to be completed by end July 2012.

(25) Revaluation of Nawam Mawatha Property

The Nawam Mawatha Property has been revalued to Rs.3,200,000,000 based on Government Valuer's report to reflect current fair market value at the year end. As a result Rs.1,842,000,000 has been transferred to the revaluation reserve as unrealized gain during the year.



ACCOUNTING POLICIES

1. General Accounting Policies

- 1.1 The published results and financial statements of the Fund have been prepared in accordance with generally accepted accounting principles and the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka using historic cost convention. No adjustments for inflationary factors have been made in these accounts.
- 1.2 The materiality of events occurring after the date of the Statement of Assets and Liabilities has been considered and appropriate adjustments, where necessary, have been made in the accounts. However, no such events have occurred to make adjustments to these accounts.
- 1.3 Provisions have been made for all known liabilities including liability on income tax on interest receivable.

2. Statement of Assets and Liabilities

2.1 Assets and Basis of their Valuation

2.1.1 Stocks:

Stock of Stationery has been valued at cost.

2.1.2 Interest Receivables:

Interest Receivable is calculated at the relevant rates of interest for the number of days from the date of the last payment of interest to the balance sheet date on each investment held by Fund at the balance sheet date.

2.1.3 Contribution Receivables

Monthly contributions to the Fund in respect of the balance sheet date have been recorded under Accounts Receivables even though the contributions have to be made to the Fund before the end of the following month of the ensuing month.

2.1.4 Sundry Debtors

Sundry Debtors are stated at the amounts that they are estimated to realize.



2.1.5 Valuation of Investments

Treasury Bills	: Are valued at cost
Treasury Bonds	: Are valued at cost plus the margin amortized
Unquoted Debenture	: Are valued at cost
Quoted Debenture	: Are valued at lower of cost and market value at the balance sheet date
Long Term Unquoted Investments:	Are valued at cost
Unquoted Shares	: Are valued based on net assets.
Quoted Shares	: Are valued at lower of cost and market value at the balance sheet date
All other Investments	: Are valued at cost

2.1.6 Property, Plant & Equipment and Depreciation

Property, Plant and Equipment have been stated at cost less accumulated depreciation. Depreciation has been charged on the Reducing Balance method other than Real Estates at the following rates.

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

Depreciation is commenced from the date when the assets are available for use and ceases at the end of immediate previous month of disposal.

2.2 Liabilities and Provisions

2.2.1 Unclaimed Refunds and Benefits

The refunds and benefits claims duly refunded to the Members or the Beneficiaries, but returned for various reasons at the balance sheet date are credited to the unclaimed refunds and benefits until they are re-claimed.

2.2.2 Unpaid Death Benefits

The benefits claims duly paid to the Beneficiaries, but returned for various reasons or retained by ETF Board until instructions are received about the legitimate recipient at the balance sheet date are credited to unpaid Death Benefits.



2.2.3 Gratuity Provision

Provision has made for retirement gratuities from the completion of first year of service for all employees. However under the payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

2.2.4 Tax payable on Interest Income

The liability for income tax is calculated to the extent of tax payable on investment income. Income tax liability of the fund is 10% of the gross income. There is no liability on capital gains earned on investments in line with the Inland Revenue Act No. 10 of 2006.

2.3 Income and Expenditure Account

2.3.1 Investment Income

Interest receivable from the investment is calculated based on the number of days that the investment has been held up to the balance sheet date. In case of margin on treasury bonds and bills, income has been recognize on the basis of holding period of such investments.

2.3.2 Dividends

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

2.3.3 Surcharges and Sundry Income

On the receipt of such income.

2.3.4 Provision for all Known Liabilities

Excess of Income over expenditure has been arrived after making provisions for all known liabilities and depreciation of fixed assets.

2.3.5 Transferred From Reserves and Distribution of Profits

For the year under review, the Fund has made following appropriations from its Reserves and Profits.

- Rs.1,000 million has been transferred to Income from Dividend Equalization Reserve
- Rs.12,317 million has been credited to the Member Fund

**Report of the
Auditor General
and Explanations
of the Board
2011**





REPORT OF THE AUDITOR GENERAL



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல. } EL/D/ETF/FA/11
My No. }

ඔබේ අංකය
உமது இல. }
Your No. }

දිනය
திகதி } 25th July 2012
Date }

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 2011 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 2011 comprising the balance sheet as at 31 December 2011 and the income statement and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10(1) of the Employees' Trust Fund Act, No.46 of 1980. My comments and observations which I understand to be published in the Board's Annual Report in terms of Section 10(7) of the Employees' Trust Fund Act, are given in this report.

1:2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1:3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of



expressing an opinion on the effectiveness of the Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 2011 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

According to Sri Lanka Accounting Standard No. 18, the Board had not revalue its vehicles to ascertain whether a material difference between the carrying value of the vehicles as at balance sheet dated and its fair value.

2.2.2 Accounts Receivable and Payable

The following observations are made.

- (a) A payable amount of Rs. 966,184 which had not been settled by the Board for over 2 years.
- (b) An amount of Rs. 50,953 which had to be settled to the officers of the Board had not been settled as at the end of the year under review.
- (c) Action had not been taken to recover an aggregate amount of Rs. 939,749 such as Special Loan Rs. 50,681, Festival Advance Rs. 10,600 Festival Loan Rs. 7,700, Special Advance Loan Rs. 22,000, Vehicle Loan Rs. 399,282 and Distress Loan Rs. 449,486 etc.
- (d) Loan installments had not been recovered during the year under review for an aggregate loan amount of Rs. 214,264 granted under SMIB Housing Loan Scheme as at 01st, January 2011.
- (e) Action had not been taken to settle a balance of Rs. 7,017,309 in the unclaimed death benefit account since 1995 and a balance of Rs. 11,749,478 in the unclaimed refunds account since the year 2001 which have shown under the liabilities, although it was in an increasing trend up to the end of the year under review.



- (f) Action had not been taken to settle the increasing balance of Rs. 4,575,055 since 2001 in the unclaimed refunds account during the year under review.
- (g) Action had not been taken to recover the amounts due from 22 officers who had left the services during a period of 1 to 12 years amounting to Rs. 385,290 as at 31st. December 2011.

2.2.3 Lack of Evidence for Audit

A value of 180 vouchers paid without evidence were Rs. 238,974/=.

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

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

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Section 1.1.6 and 2.3 of Public Administration Circular No. 22/99 of 08th. October 1999	An amount of Rs. 2,317,396 had been incurred on fuel for the private travelling of the officers of the Board in contrary to these sections.
(b) Section 01 Public Enterprises Department Circular No. 50 of 28th. July 2008	An amount of Rs. 871,242 incurred on fuel for 03 officers during the year under review in excess of approved fuel expenses in the circular.
(c) Public Enterprises and Public Administration Circulars. Public Enterprises Circular No. 130 of 18th. March 1998 & Public Administration Circular No. 26/47 of 19th. November 1997 and Section 19 of minutes of COPE meeting held on 18th. November 2011.	Although it had been stated that not to grant loans to the employees of Public Corporations and Statutory Boards on the interest rate of 4.2%, Board had granted loans to the employees at the aforesaid rate of interest and lower rates in contrary to the circular. The outstanding amount of loan to be recovered on the above rate of interest were Rs. 338,938,974 as at 31st. December 2011 .



- (d) Public Enterprises Department Circular No. 12 of 06th. June 2003.
- (i) Section 8.3.8 Donations amounting to Rs. 853,440 had been granted without prior approval of the Cabinet of Ministers.
- (ii) Section 8.7 An amount of Rs. 3,429,042 had been incurred on payment of PAYE on the employment income of the employees even though employer should not bear such taxes.
- (iii) Section 9.12 An amount of Rs. 18,353,944 had been incurred on welfare projects implemented by the Board during the year under review without approval of the Department of Public Enterprises and the General Treasury.
- (e) Public Finance Circular No. PF/PE 05 of 11th. January 2000 and Section 16 of minutes of Committee on Public Enterprises meeting held on 18th. October 2011. An amount of Rs. 74,845,611 had been paid as incentive during the year under review without the approval of General Treasury.
- (f) Management Services Circular No. 47 of 22nd. December 2011. A sum of Rs. 44,482,478 had been paid as bonus in contrary to the section 1 and 2 of this circular and if bonuses are being paid deviating from the provisions of the circular, the prior approval should be obtained from the Cabinet of Ministers under the section 8 where as the Board had not been acted accordingly.



- | | |
|---|---|
| <p>(g) Management Services Circular No. 30 of 22nd. September 2010.</p> <p>Para (6) of Annexure II</p> | <p>Instead of granting the difference of reducing financial value of salary increments for the future, adjustments had been made in the salary increments affecting to past periods on the basis of old salary scales on which increments had already been paid and it had not been corrected even as at 31st. March 2012</p> |
| <p>(h) Administration & Human Resources Division Circular No. 2005/12 of 25th. July 2005. Para xiv of Section 3</p> | <p>An instance had been observed that a loan had been granted without settling the unrecovered balance of the previous loan in contrary to the circular.</p> |
| <p>(i) Sri Lanka Financial Regulations</p> <p>(i) FR. 104</p> <p>(ii) FR. 756 (I)</p> | <p>It had not been submitted reports of 45 vehicle accidents to the Auditor General.</p> <p>A formal Board of Survey had not been conducted as compared to the value of the fixed asset shown in the Balance Sheet.</p> |

2:2:5 Transactions not supported by adequate Authority

The following observations are made.

- (a) The approval of the Ministry of Finance or the General Treasury had not been obtained even up to the end of the year under review for the financial procedures manual implemented since 1999 on the approval of the Board of Directors.
- (b) An amount of Rs. 8,709,039 had been incurred on supply of uniforms to the employees while this had been implemented since 1993 without obtaining the approval of General Treasury.
- (c) A payment of one and half hour for one hour of overtime done and one day's wage on completion 08 hours on Saturdays and Sundays without an approval and basis of payment had been made were included in the Board's overtime amount of Rs. 14,092,107 .



3. Financial Review

3:1 Financial Results

The operations of the Board for the year under review had resulted a surplus of Rs.11,570,693,989 compared with the corresponding surplus of Rs.14,588,646,421,261 for the preceding year. Accordingly, the decrease in the surplus for the year under review as compared with the preceding year amounted to Rs.3,017,727,272. The reasons for the decrease in surplus in the year 2011 were due to decrease in income on investments and capital gain on sale of shares as well as the increase in administrative expenses.

3:2 Analytical Financial Review

Following observations are made.

- (a) Due to decrease in surplus in the year under review, the dividend declared to the members was reduced by 2.5% compared to the previous year.
- (b) Entitlement of the members of the Fund, total contributions and variances in the cumulative value of interest in 05 years.

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

Year	Total contribution	Contribution Interest	Members' Entitlement
2007	36,798.97	39,134.10	75,933.07
2008	40,712.25	48,157.80	88,870.05
2009	43,875.10	59,181.98	103,057.08
2010	48,148.28	71,704.59	119,852.87
2011	51,464.77	84,021.53	135,486.30

As per the above information the total entitlements of the members of the fund were 38% of the contributions as at the year 2011, while 62% was the cumulative interest. Whereas the relative growth of total entitlements of the year 2011 has increased by 13% against the 2010, but the growth of the contribution was only in 6.9% for the year.



4. Operating Review

4.1 Performance

4.1.1 Operating Performance

Status of performance as at the end of the year 2011 as shown below.

Description	Actual Number	Number Re- lating to the Performance of the Fund	Percentages there to
Employment of Private and Semi Government Sector	3,414,944	2,100,000	61.49%
Employers	228,926	67,041	29.28%
No.of Member Accounts of the Fund (Millions)	9.6	2.1	21.87%

An adequate programme had not been prepared to facilitate 2,478,716 self employed persons enrolled to the fund as at the end of the year 2011.

(Source: Report of the Central Bank of Sri Lanka 2011)

4.1.2 Investments and Investment Income

The investments amounting to Rs.118.984 million as at the beginning of the year under review had increased to Rs.134.991 million as at the end of the year after adjustments for purchases and maturities.

The following observations are made in this connection.

(a) Investments in short term Repos

An approximate amount of Rs. 11,934,162 had not been received by the Board if the rate of interest 10% assumed hypothetically as the Board had invested Rs. 500,000,000 in a certain bank in 2006 for the service to be provided to the Board on an agreement entered into by both parties.

(b) Investments in Shares

- (i) An amount of Rs. 29,356,835 had been reinvested during the year under review where no income had been received from 10 companies of which Rs. 138,403,316 had been invested and another 03 companies where Rs. 82,504,091 invested without any income.
- (ii) Either the capital gains or the capital invested could not be received, due to the two companies which had been liquidated where Rs. 25,227,538 had been invested in 654,570 shares and a company which was delisted where Rs. 4,066,314 had been invested in 178,700 shares.



- (iii) The amount of Rs. 152,478,563 had been invested in 05 companies which had not been dealt in the capital markets during the period of 02 to 05 years. The Chairman of the Board had mentioned in his reply that the General Treasury had instructed not to sell shares of Sri Lanka Telecom PLC without their approval which had included here.
- (iv) The capital gains received on sale of shares and units during the year under review had been reduced by Rs.654,779,335 compared to the previous year as percentage of 54%. The Chairman of the Board had intimated in his reply that the share market transaction had been affected a deep regression in the year 2011 compared to the year 2010 and it would be expected to earn more capital gains by selling of shares when the trend in market prices would be gone up.
- (v) A provision of Rs. 911,992,269 had been made against a possible loss on investments made in 63 companies out of 105 companies of which Rs. 7,228,104,571 invested, due to decrease in market prices.
- (vi) Action had not been taken to recover interest on investments amounting to Rs. 27,854,580 receivable for more than 09 years on investments made in debentures and promissory notes in 02 companies even as at 31st. December 2011.

4.2 Management Inefficiencies

The following observations are made.

- (a) An amount of Rs. 384,306 had been allowed to retain short term with the officers of the Board, paying advances without ascertaining the correct requirement.
- (b) Although a Fixed Assets Register is being maintained by the Board from the year under review, the depreciation amount of Rs. 26,210,160 relating to the year could not be clearly identified over the distribution among the each item of asset.
- (c) It was observed that the fixed assets valued to Rs. 6,043,707 which had been disposed gaining a profit of Rs. 2,665,709 would have been more if a disposal had been made on a valuation of a Government Valuer.

4.3 Operational Inefficiencies

- (a) Rs. 21,900,000 shown under the receivables in the accounts of the Board as a deposit which had been paid on a court order to a certain company on a breach of an agreement and as a result of an appeal the said company had submitted a bank guarantee for the same amount representing the same value. The court had not been come to a final decision over this appeal during the year under review.



4.4 Uneconomical Transactions

The following observations are made.

- (a) It was revealed that an idle expenditure had been incurred due to purchase of excessive stocks of uniforms without collection of correct data for the uniform requirement and the value of unutilized balance uniforms of the Board were Rs. 1,943,500 inclusive of the purchases in 2011 and previous years.
- (b) An amount of Rs. 1,078,515 had been incurred on paper advertisements on awareness of scholarship awards for the students who have passed the Advanced Level Examination in 2010 without a proper plan and a study to get a maximum result on a minimum cost.
- (c) A cost incurred on a ceremony held for the 5 year scholarship awards was Rs. 1,656,643.

4.5 Identified Losses

While a petty cash shortage of Rs. 11,412 occurred in a regional office had been written off against the profit without recovering from the parties responsible and an amount of Rs. 103,484 recoverable on vehicle parking had also been written off due to unrecoverable from the parties concerned.

4.6 Resources which had been given to other Government Organizations

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

4.7 Build up a Fund for the Employees Gratuity Provisions

Action had not been taken to invest Rs. 179,895,381 in the Gratuity Provision account as at the end of the year under review in a separate fund.

4.8 Vehicle Utilization

Action had not been taken to recover a loss of Rs. 606,134 occurred due to accidents of Board's vehicles during the under review from the responsible parties or insurance.

5. Accountability and Good Governance

5.1 Corporate Plan

The Corporate Plan was relevant to the period 2009 -2012 and it was not updated till the month of October 2011.



5.2 Action Plan

It had not been submitted an annual action plan to the audit as at the end of the year 2011 although there had been an action plan submitted with the Corporate Plan for the period 2009-2012.

5.3 Internal Audit

The copies of internal audit reports to the Auditor General had not been submitted and the functions of the Internal Audit Division had not been fulfilled according to the section 04 of the Management Audit Circular No. DMA/2009 dated 09th. June 2009 and sections 133 (2) and 134 (3) of Financial Regulations.

5.4 Procurement Plan

A Procurement Plan of the Board had not been submitted to the audit for the year under review.

6. Systems and Controls

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

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

H. A. S. Samaraweera
Auditor General.



Explanations of the Board with regard to the Report of the Auditor General.

2. Financial Statements

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

Since there is no considerable difference of the value of the vehicles compared to present market value and the written down valued of the vehicles had been shown in the accounts deducting the accumulated depreciation from the cost according to the Sri Lanka Accounting Standards No. 18 in the final accounts.

2.2.2 Accounts Receivable and Payable

- (a) The amount in arrears as payable Rs. 966,184 represents the gratuity payable to following 02 officers and a cheque remitted in favour of the Board inadvertently.

An officer who is under an interdiction at present has not accepted his gratuity entitlement of Rs. 699,705. A case is pending in Labour Tribunal regarding his interdiction and accordingly the amount would have to be paid to him.

Due to non acceptance of the cheque for gratuity payment of Rs. 166,479 made to an officer who is also not in Board's service at present, had been returned to this Board.

In the year 2008 an amount of Rs. 100,000 to be credited to Employees' Provident Fund had been inadvertently remitted to this Board bearing cheque No. 832456 by the Magistrate's Court of Anuradhapura. While this had been sent to Registrar of Magistrate's Court, Anuradhapura and as they had not been accepted the cheque and instructions had been given to the relevant section to return the cheque to relevant institution.

- (b) A balance of Rs. 50,953 exceeding one year to be settled to the officers of the Board.

This amount represents the suspended medical bill reimbursements to 50 employees due to no pay leave, disciplinary actions, interdictions, imposition of fines etc. in time to time. If there would be a possibility to pay the relevant officers concerned to pay the amounts due or otherwise to credit the amounts to the income of the Board after exceeding the relevant period.

- (c) An aggregate balance of Rs. 939,749 not recovered from the creditors or the guarantors.

Cases had been filed against some employees who are on interdictions by the Fraud Bureau and the Bribery Commission. According to the judgment of the Commission if they are being dismissed from the services, it would be recovered from their final payments or otherwise from the guarantors. The other loan balances of employees would be recovered from the guarantors.



(d) The SMIB Housing Loan amount of Rs. 214,264 not recovered during the year under review

This unrecovered loan amount include amount of Rs.212,002 relating to a property affected by Tsunami Disaster on which a loan was granted. Investigations were being held regarding the settlement of this loan. The balance unrecovered loan amount related to surcharge for late settlements and not for loan installments. Necessary instructions have been given to relevant employees to settle these due balances.

(e) Balance of Rs. 7,017,309 in the Death Benefit Account

There are instances where many claimants than one claimant determined, when a death of a member had been occurred. Since all the claimants are not submitted their claims at one instance and some of them are not in a position to submit the adequate written information etc., the amount retained by the Board are included in this account. Action would be taken to release the amounts retained to claimants on submission of the relevant documents.

(f) Balance of Rs, 11,749,478 in the Unclaimed Refunds Account

This account represents the value of the returned refunds which had been directly sent to the bank account of the claimants had been returned by the banks due to non availability of adequate details of such claimants.

A constant attention had been focused in the account and action had been taken to refund the payables to the members in every possible opportunity having made the awareness among members by paper advertisements.

Balance of Rs. 4,575,055 in the Claims Refund Account

The value of the refund cheques issued to the claimants but not presented to the bank till the expiration of validity period would be transferred to this account. After this transfer the claimants would be informed by letters and on the requests of claimants cheques would be issued from this account.

(g) Amount Recoverable from officers who had left the Boards' Services ranging from 1 to 12 years.

These unrecovered balances include unreleased surety bonds given by the employees who have taken approved no pay leave for leaving overseas and not returned to office on due date, staff loan balances, festival advances, one month salary amount to be recovered from employees who have resigned from Boards' service without giving one month prior notice etc. Several reminders have been sent to recover these dues and if they further default such settlements, necessary action will be taken to recover arrears in due course.



2.2.3 Lack of Evidence for Audit

Rules and regulations and clear instructions had been issued by the Board to the sections and regional offices who are handling petty cash payments. These expenses are relating to the travelling expenses incurred by the officers of the regional offices for their official duties. Action would be taken to avoid the deficiencies shown in the audit query in future.

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

- (a) According to the Board Decision of October 1999, Deputy General Managers are also entitled to use the Board vehicles for their private travelling under a specific limit. In addition to that as per the resolution of the Board of Directors dated 13.08.2008 the same facility had been extended to the Assistant General Managers within a specific limit. The amount of Rs. 2,317,396 stated in the report as fuel expenses is the total expenditure of these officials incurred on their official and private travelling.
- (b) The officers who have mentioned in the query are the three main officers involved in the administration and operational functions of the Board. These three officers have to travel for 17 Regional Offices, Self Employment Promotions, social hospitality activities and various official functions organized by the Ministry of Finance out of Colombo frequently. In addition to these, very often visits to Regional Offices to supervise the proper collection of contributions and recovery of default contributions etc. to the Board. Accordingly the approved limits of the fuel had been incurred in excess.
- (c) According to the Public Administration Circular No. 26/1997 based on the budget proposal for the year 1998, it had been decided to reduce the rate of interest from 7.2% to 4.2% for the loans of public servants. Accordingly the Board of Directors has decided on 20.01.1998 to reduce the rate of interest to 4.2% with effect from 01.12.1997. Thus the loans released to employees of the Board are being recovered from monthly salaries of employees with interest.
- (d)
 - (i) These donations had been granted for the social hospitality activities such as renovation of Ranaviru Sevena and the functions of Sambudhathwa Jayanthi etc. which are commonly affected to the membership of the Board.
 - (ii) Pay As You Earn (PAYE) tax payable on employment income of the employees were being borne by the Board on the approval of the Board of Directors since April 2007.
 - (iii) Supply of uniforms, financial assistance to sports clubs, supply of tea to staff, transport facilities to attend funerals of dependants of staff and the grants to retiring staff members etc. had been included in these welfare expenses which have incurred on approval of Board of Directors within the approved limits of authority.
- (e) The monthly incentive payment implemented since 01st. February 1992 on the approval of the Board of Directors was continued for the year 2011 on the same basis.



- (f) The employees of the Board had been paid bonus since the year 1992 with the approval of Board of Directors. Covering approval of the Ministry has been obtained for the payment of bonus for the year 2011, on 05th. January 2012.
- (g) Action would be taken to rectify the errors as per the instructions of National Salaries and Cadre Commission dated 02nd. May 2012.
- (h) It was observed later that the balance of three wheeler loan released to an officer had not been recovered when releasing the vehicle loan, and action has taken to recover the excess amount released.
- (i) (i) While a few number of accidents could not be claimed, claims pertaining to 45 accidents could be claimed from the Sri Lanka Insurance Corporation during the year 2011 and action will be taken to inform the losses on accidents to Auditor General in future as per financial regulation No. 104.
- (ii) A formal Board of Survey had been carried out for the year 2011 as per the provision of FR. 756(I) and the report had been submitted to the audit.

2.2.5 Transactions not supported by adequate authority

- (a) Amendments to the Financial Procedure Manual according to the current requirements had been entered in to an agreement with the Ministry of Finance and had almost come to the final stages. It is planned to finalize and submit for the approval before the end of the year 2012.
- (b) With the approval of the Board of Directors a scheme of supply of uniforms to staff had been implemented since the year 1993. Since the Board of Directors had approved this as staff welfare and the uniforms for the staff for the year 2011 had also been supplied accordingly.
- (c) Since the payment for the Board employees are based on the Shop & Office Act provisions, the rates applied on the payments for the overtime and overtime on holidays had been made in accordance to the said act.

3. Financial Review

3.1 Financial Results

Agree with these observations.

3:2 Analytical Financial Review

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



4. Operating Review

4.1 Performance

4.1.1 Operating Performance

According to the provisions of the Employees' Trust Fund Act No. 46 of 1980, the employers of the public and private sector who are not contributing to Government pension scheme for their employees should contribute to this fund on behalf of their employees. Accordingly 67,041 active employers had been contributed to this fund at the end of the year 2011. It is compulsory to pay the contribution to the Employees' Trust Fund Board through a number allocated to Employees' Provident Fund and all the employers who had obtained EPF number are contributing to this fund.

The all employers who maintain private provident funds also should contribute to this fund have registered as contributing employers of the Employees' Trust Fund. In addition, facility has been provided to allocate a temporary number to employers avoiding the circumstance if there has been a delay in obtaining a Employees' Provident Fund number.

According to an object of Corporate Plan of the Board, all the actions had been taken to recover the contributions from every employer to the fund. A major programme had been launched to identify the defaulting employers having had an over 30,000 inspection coverage. When compared to 2010, there had been an increase of about 5,000 contributing employers during the year 2011. All the efforts had been implementing from the last few years to contribute to the fund however all the employers through various systems of technical and internet media. Therefore a problem had been arose how the figure of 228,926 employers had been arrived at, mentioned in the audit report.

Provision had been made to enroll the self employed persons as members of the fund according to the section 18 of the Employees' Trust Fund Act No. 46 of 1980. Accordingly, a formal programme is being implemented under an Assistant General Manager in enrolling self employed persons and migrant workers to the fund. Under this promotional programme there had been an enrolment of Samurdhi self employed persons to the fund through an agreement entered in to with Samurdhi Authority of Sri Lanka in addition to the general self employed persons. Further, a major programme had been implemented to enroll Dairy Farmers scattered all over the country through Milco Company, Flower Planters through the Flower Planters' Association, Pre School Teachers, Private Bus Owners as well as the employees of the transport field through Private Bus Owners Association, persons employed in building construction field through their associations concerned, news paper agents as well as lottery agents etc. as members of the fund. Therefore it is expected to have a material development in membership enrolment of self employed persons scattered all over the country in future.

**4.1.2 Investment and Investment Income****(a) Investments in Short-Term Repos**

A collection account for deposit daily receipts of cheques and money orders from employers to Employees' Trust Fund Board had been maintained from the year 2000 with a main state bank.

An agreement had been entered into with this state bank to get the credit facility to the 40,000 number of cheques collected during a month to the worth of approximately Rs. 1 billion on the following day.

According to the agreement a Repo investment of Rs. 500 million had been invested by the Board over the implement of this facility and the bank had offered an annual interest rate of 0.25% less than the existing Treasury Bill interest rate.

The Board has an ability to invest in a profitable way a considerable amount out of Rs. 1 billion deposited in the bank on the following day and accordingly there had not been incurred a financial loss pointed out in the audit report.

(b) Investments in Shares

- i. Although no income had been received for the investment made in 10 companies amounting to Rs. 138,403,316 during the year under review, it would be expected to receive capital gains under a fair market condition. During the year 2011 shares had been purchased from John Keels Hotel and Pan Asia Bank as well as right issue of Marawila Resort Company valued to Rs. 750,500 investing an amount of Rs. 29,356,835. It is expected to receive dividends and capital gains from the investment in the shares in these companies.
- ii. Rs. 25,227,538 had been invested in Korea Ceylon Footwear Ltd. and Magpec Exports Company and as well as these companies had been liquidated and relevant court cases are also still being pending. Further the Veyangoda Textile Company in which Rs. 4,066,134 had been invested in 178,700 shares had been delisted and it had been re-registered under the New Company's Act and information are still being searched.

The details of three companies liquidated and in which Rs. 29,293,852 had been invested are given in the following table.

	Name of the Company	Date of First Purchase	No. of Shares	Cost Rs.	Legal Status
01	Korea Ceylon Foot Wear	01.03.1982	54,270	2,755,566	Re-call on 18.06.2012
02	Magpac Export	05.01.1995	570,300	22,471,972	The appeal versus the court order had not been called yet.
03	Veyangoda Textile	08.09.1994	178,700	4,066,314	
		Total		29,293,852	



- iii. The Companies which had not involved in any transactions during the period of 02 to 05 years were Sri Lanka Telecom, Lanka IOC, Light House Hotel, Chemanex PLC, Raigam Wayama Saltern etc. Out of these 05 companies, the General Treasury had issued instructions under the signature of Secretary to the Treasury dated 25.02.2008, not to sell any shares without the approval of the General Treasury. Accordingly the sale of shares in the said company had been suspended, and company had not been involved in capital market transactions. However, the other 04 companies are also not involved in the capital market transactions during the year 2011 under the prevailed market conditions, we expect to have the capital market transactions when the profits could be earned in the future opportunities.
- iv. When compared to the year 2010, the share market had been affected a deep regression in the year 2011. The Board had earned capital gains of Rs. 554,940,657 in the year 2011 selling of shares only form which capital gains could be earned compared with the prevailing market prices. It is expected to earn more capital gains selling shares when the trend in market prices is going up.
- v. Provisions had been made in the accounts according to the Sri Lanka Accounting Standards for diminution in value of shares. However, if there would be an excess of provisions when market prices are going up it could be re-added to the income.
- vi. The details of the amount of interest on investment to be receivable Rs.27,854,580 are as follows.

Name of Company	Amount Rs.
Elkaduwa Plantation Company	12,291,556
Vanik Incorporation	206,349
Vanik Incorporation	15,000,000
Vanik Incorporation	356,675
Total	27,854,580

Elkaduwa Plantation Company – Rs. 12,291,556

The amount of Rs. 12,291,556 had been shown in the accounts as interest receivable on Rs. 15 million invested in debentures of Elkaduwa Plantation Company. According to a decision of Cabinet of Ministers an amount of Rs. 15 million had been invested in debentures of Elkaduwa Plantation Company in the year 1994. Although the first installment of interest had been paid, the rest of the interest installments and the capital of Rs. 15 million due to be paid in 1999 had been defaulted. As a result of the discussions had with the relevant parties, the amount invested had been settled in fully by monthly installment of Rs. 2.5 million as at 12.08.2010 and had agreed to settle the interest in arrears would be settled in monthly installment of Rs. 500,000. Accordingly 11 installments had been settled from January 2011 to November 2011 and thereafter no installments paid. The Chairman of the Company had informed in his letter dated 30.05.2012 that payments would be made no sooner the company received the funds.

**Vanik Incorporation – Rs. 206,349**

This is an interest receivable on Promissory Notes issued by the Vanik Incorporation. Since there is a case pending on this company and the case will be called on 22.08.2012.

Vanik Incorporation – Rs. 15,000,000

Rs. 100 million was invested in debentures guaranteed on capital of Vanik Incorporation on 31.12.1998 on 15% interest for 5 year period. Although the interest defaulted for the year 2002, the capital of Rs. 100 million could be recovered from the guarantors on 30.04.2003 and the interest of Rs. 15 million could not be recovered. Since there is a case pending on this company and the case will be called on 22.08.2012.

Vanik Incorporation – Rs. 356,675

This is an interest receivable on Promissory Notes issued by the Vanik Incorporation. Since there is a case pending on this company and the case will be called on 22.08.2012.

4.2 Management Inefficiencies

- (a) At present there is no proper system of advances to officers to get a pre assumed estimate of expenditure. However, details would be obtained at the settlement of the advance. Instructions had been issued to settle the advance taken within one week. However, there would be an excess of advance taken as well as shortage due to some unexpected situations. Action would be taken to formalize the advance procedure.
- (b) Action would be taken to amend the Fixed Assets Register to intimate the yearly distribution of depreciation among assets from the year 2012.
- (c) The disposal of the 03 vehicles valued to Rs. 4,442,675 out of the value of Rs. 6,043,707 mentioned in the query had been disposed on a valuation obtained from a Government reputed valuer, upon which the minimum disposal value had been determined. The other value of Rs. 1,601,032 received on disposal of scraped computer accessories, miscellaneous equipments and furniture etc., for which the minimum value had been determined on the price estimates given by the three member committee appointed by the management as the appointment of a valuer for these items would not be worthwhile for the Board.

Accordingly, these fixed assets had been disposed to the highest bidders who have quoted the prices in sealed quotations and the Board had realized a net profit of Rs.2,665,709 during the year under review.

4.3 Operational Inefficiencies

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



On the order of the Courts the Board had paid Rs. 21.9 to M/s. Somerville & Co. although the Board had made submissions to the Court.

But an appeal had been filed against the court decision by the Board and aforesaid 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/CHC/20/2003 filed by the Board will be called on 18.12.2012.

4.4 Uneconomical Transactions

- (a) An excess of 10% of uniform requirement for the employees for each year would be purchased for the purpose of the new recruitments during the year. As this practice had been continuing from several years and there would be an excess in each year. The balance of uniforms thus remained would be sold to staff at a discount once in three years.

However, considering this situation purchase of uniforms to the staff for the year 2011 had been limited to the actual cadre requirement and prompt action will be taken to dispose the balance uniforms.

- (b) The financial assistance to the GCE (Advanced Level) students of the members of the ETF at Rs. 12,000 for 10,000 students had been launched in 2010. Since this was a new scheme, awareness had to be done through news papers. As there was no response to the first advertisement for the calling applications for the scheme, in the intension of grant more scholarships to more students advertisements had to be published in 02 more instances. 1,761 applications had been received on these awareness advertisements and therefore the relevant expenses had to be incurred.
- (c) Scholarships are being awarded for 5,000 students who had been passed 5 year scholarship examination at Rs. 15,000 each. Accordingly, the scholarship award ceremony would be held in each year at the Temple Trees in the patronage of H.E. the President with the ministers and members of Parliament as well as the parents of the 400 students who had been obtained highest marks in each districts of the island and these expenses had been incurred on refreshments for the occasion and printing of certificates etc.

4.5 Identified Losses

Petty Cash Shortage

The petty cash shortage of Rs. 11,412 had not been written off from the profit but only a provision made in the accounts. Even though this cash theft had been complained to the relevant police station no progress had been reported. Accordingly, on the awareness of the Board of Directors about this incident necessary adjustments would be taken in future.



Arrears Recoverable from Car Park

The vehicle park owned by the Board had been leased out to an outside party in October 2009, and arrears recoverable from the customers at the time of lease was executed was Rs. 1,455,962. Out of this amount only Rs. 1,352,478 could be recovered while Rs. 103,484 was on an unrecoverable state. On the recommendations of Audit Committee although the reminders were made in time to time as the good response was not received from them and the amount recoverable on was only an immaterial amount of 0.15% compared to the parking income collected from the year 2004 to 2009 and as well the uncertainty of the recovery, Board of Directors had decided to write off from the books of accounts.

4.6 Resources which had been given to other Government Organizations

Instructions had been received from the Presidential Secretariat to release the ex-Deputy General Manager – Administration and Human Resources to Presidential Secretariat to coordinate and supervision of North – East Development Projects and accordingly he had been released with the vehicle No. PB –1089 he was used and up to now he was using this vehicle and only repairs and maintenance would be handled by the Board. However this vehicle is needed for the use of Boards' activities and it was decided to make a request to return the vehicle to the Board in due course.

4.7 Build up a Fund for the Employees' Gratuity Provision

The calculation of gratuity provision for the employees had been done as the previous practice. However an advice had been sought from the Institute of Chartered Accountants of Sri Lanka, Sri Lanka Accounting Standards and Monitoring Board, Auditor General's Department as well as the Department of Public Enterprises regarding the statutory requirement of the compliance of the proposed new Sri Lanka Accounting Standards (LKAS & SLFRS) to be implemented from 01.01.2012. According to the responses from these institutions, action would be taken regarding the compliance of new accounting standards.

4.8 Vehicle Utilization

Action would be taken to recover the amounts due from the insurance institutions as well as the other relevant parties.

5 Accountability and Good Governance

5.1 Corporate Plan

The Corporate Plan for the period 2012 – 2014 had been updated and submitted to the Audit before the end of the year 2011.

5.2 Action Plan

The Action Plan for the year 2012 and for the period 2012 - 2014 had been submitted to the Audit before the end of the year 2011.



5.3 Internal Audit

Since the copy of Internal Audit Programme prepared according to the FR 134(2) and approved by the Board of Directors had been submitted to Auditor General and internal audit reports of the audit inspections carried out regarding the cash & bank, collection of contributions and recovery of surcharges, investments, petty cash advances, disposal of vehicles, property-plant and equipment, final accounts, vehicle running charts, purchase of vehicles, audit of regional offices, insurance claims, annual bonuses as well as staff leave etc. for the year 2011 had also been submitted to the Auditor General.

However the checking of applications of 5 year and GCE A/Level scholarships, determination of final payments due to staff over the termination of employment, reimbursement of Viyana Housing Loan Scheme, checking of member benefit claims, checking of monthly performance incentive rates, reimbursement of medical claims etc. are the activities and functions of the Internal Audit Division.

5.4 Procurement Plan

The Procurement Plan for the next year had been submitted to the audit during the year under review.

6. Procedures & Controls

Necessary steps would be taken focusing special attention to the facts mentioned in the query.

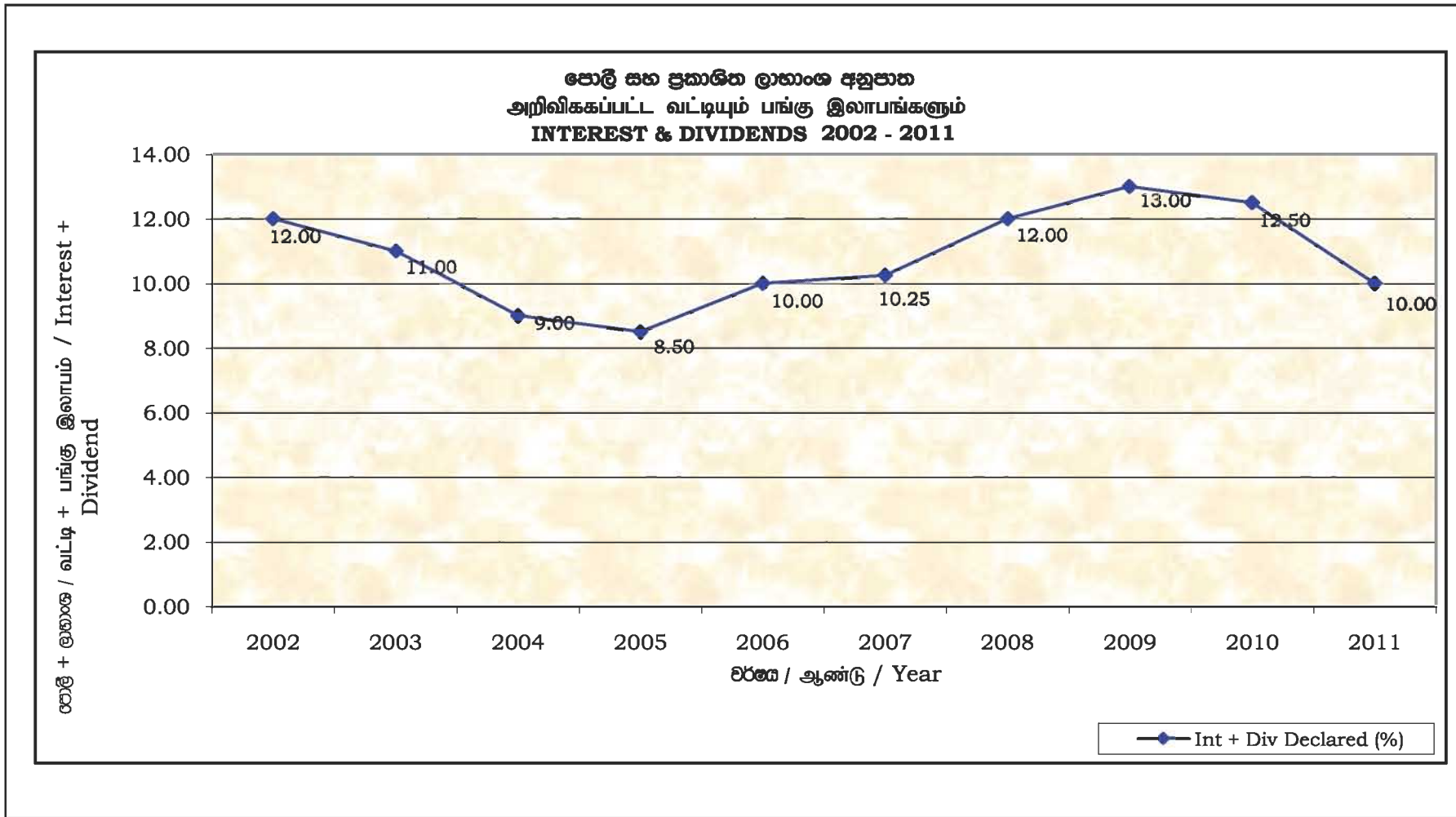
KMA Godawatte
Chairman / Chief Executive Officer
Employees' Trust Fund Board.

സംവിനാശരഥ ഏശ്രുശൃര
പുள்ளിവിപര ഇണൈப்பு
Statistical Annexe
2011

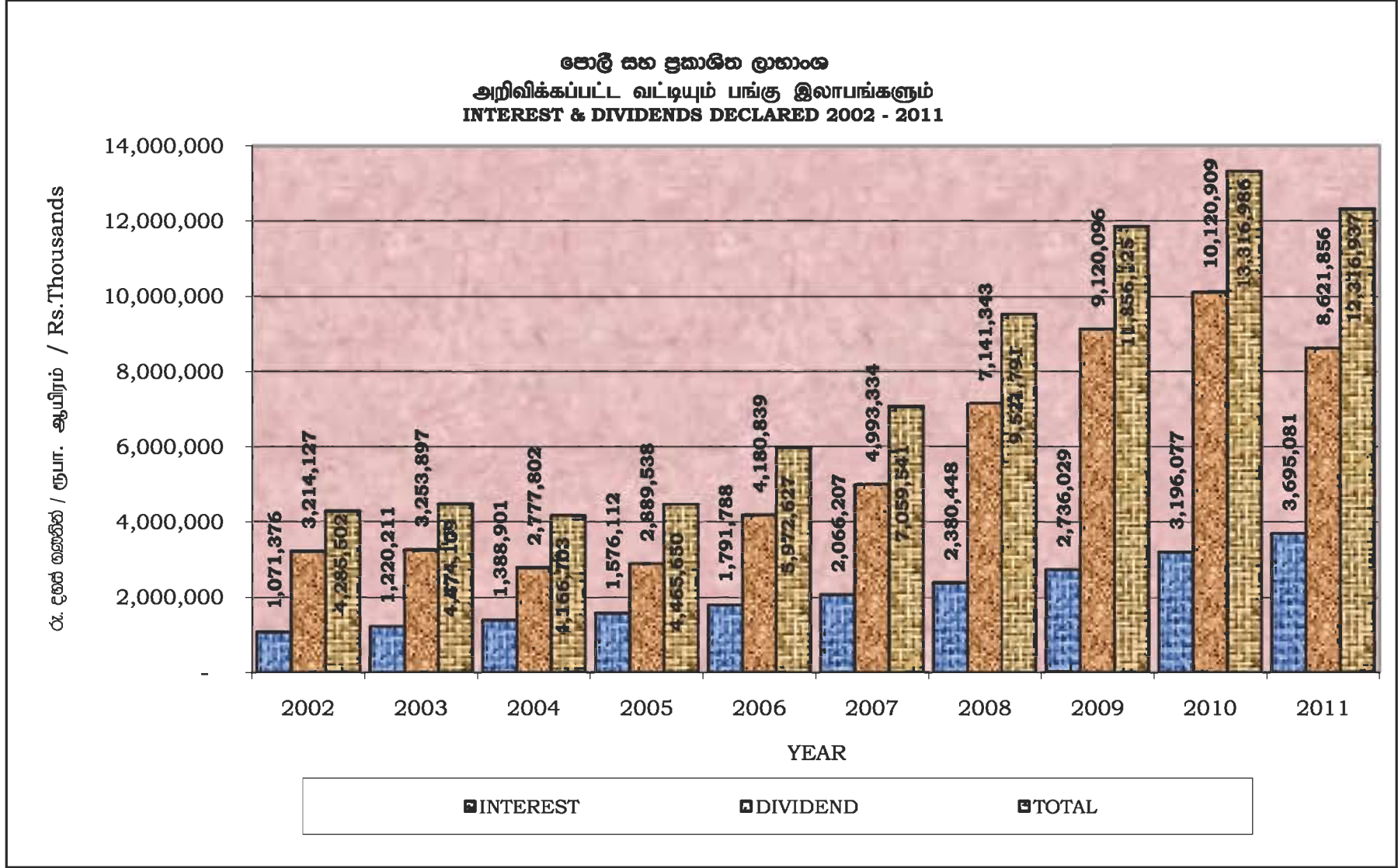


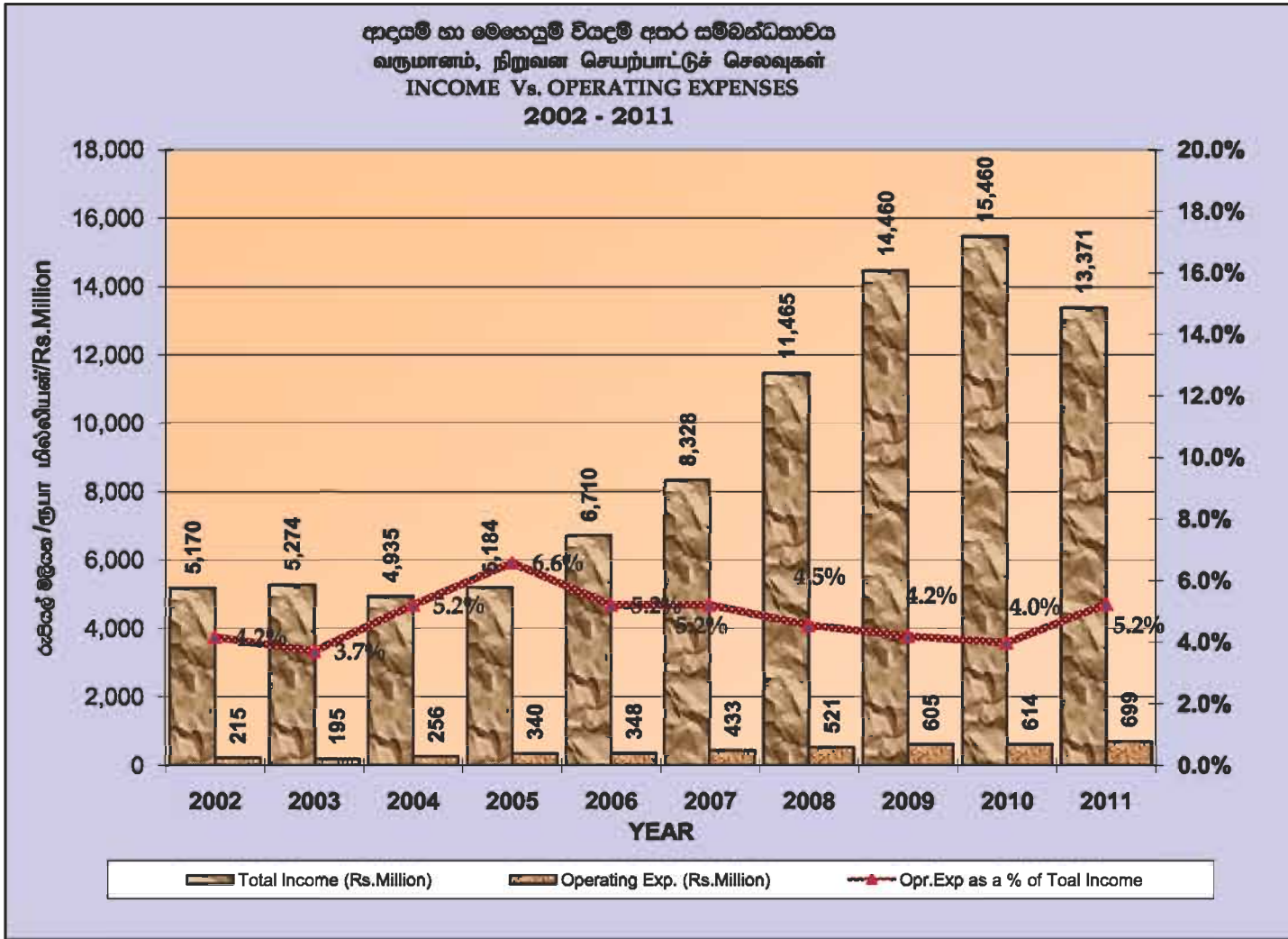


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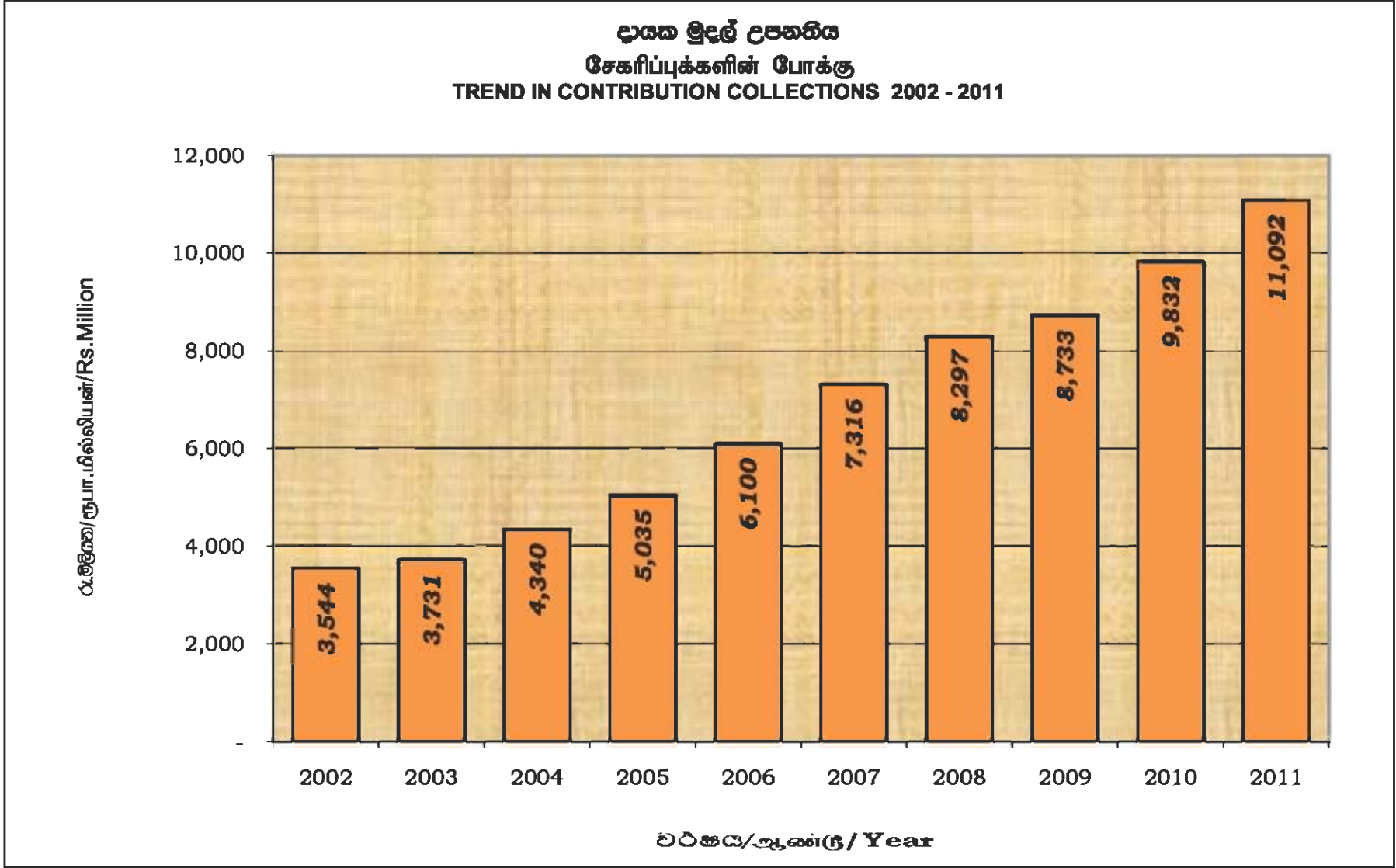


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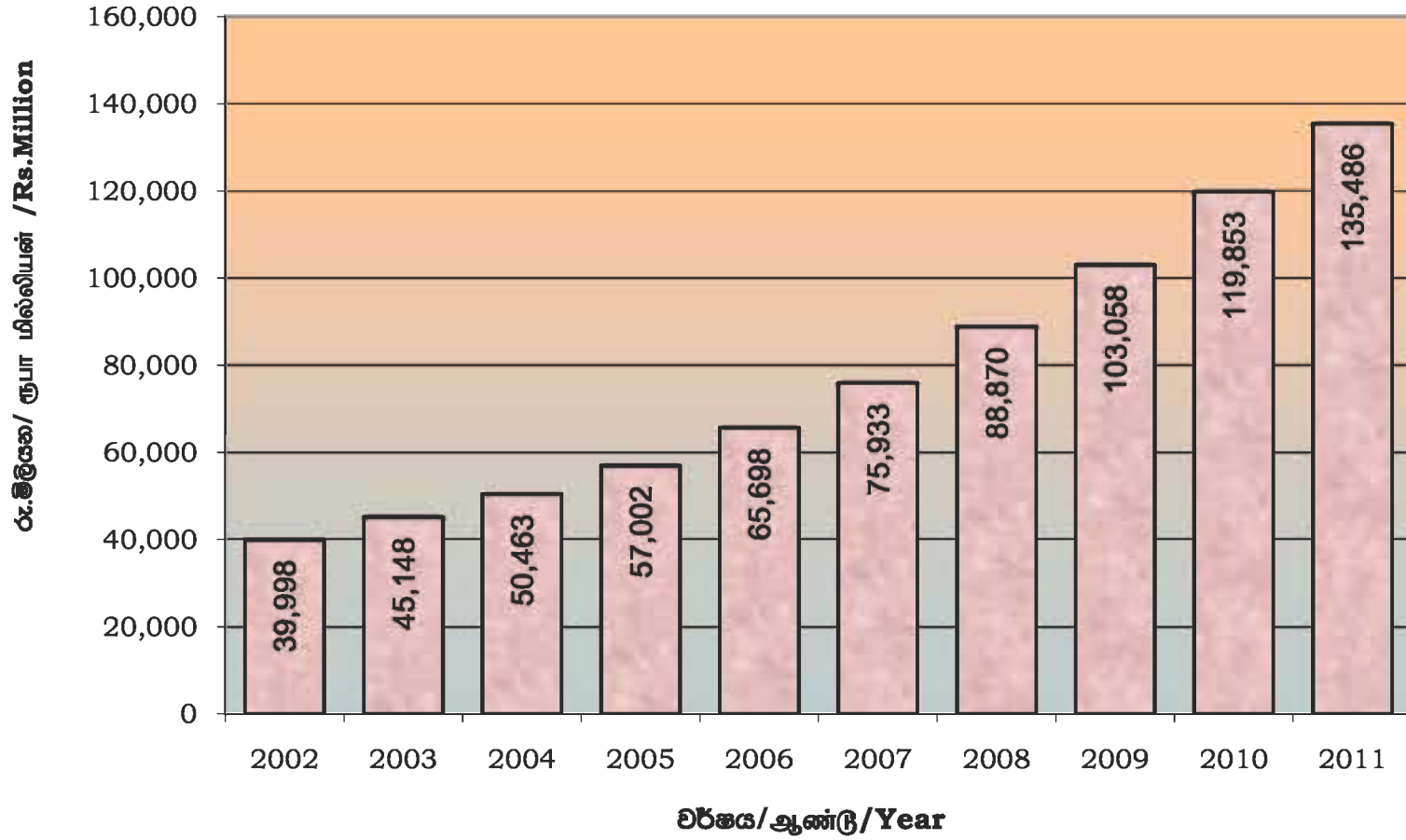




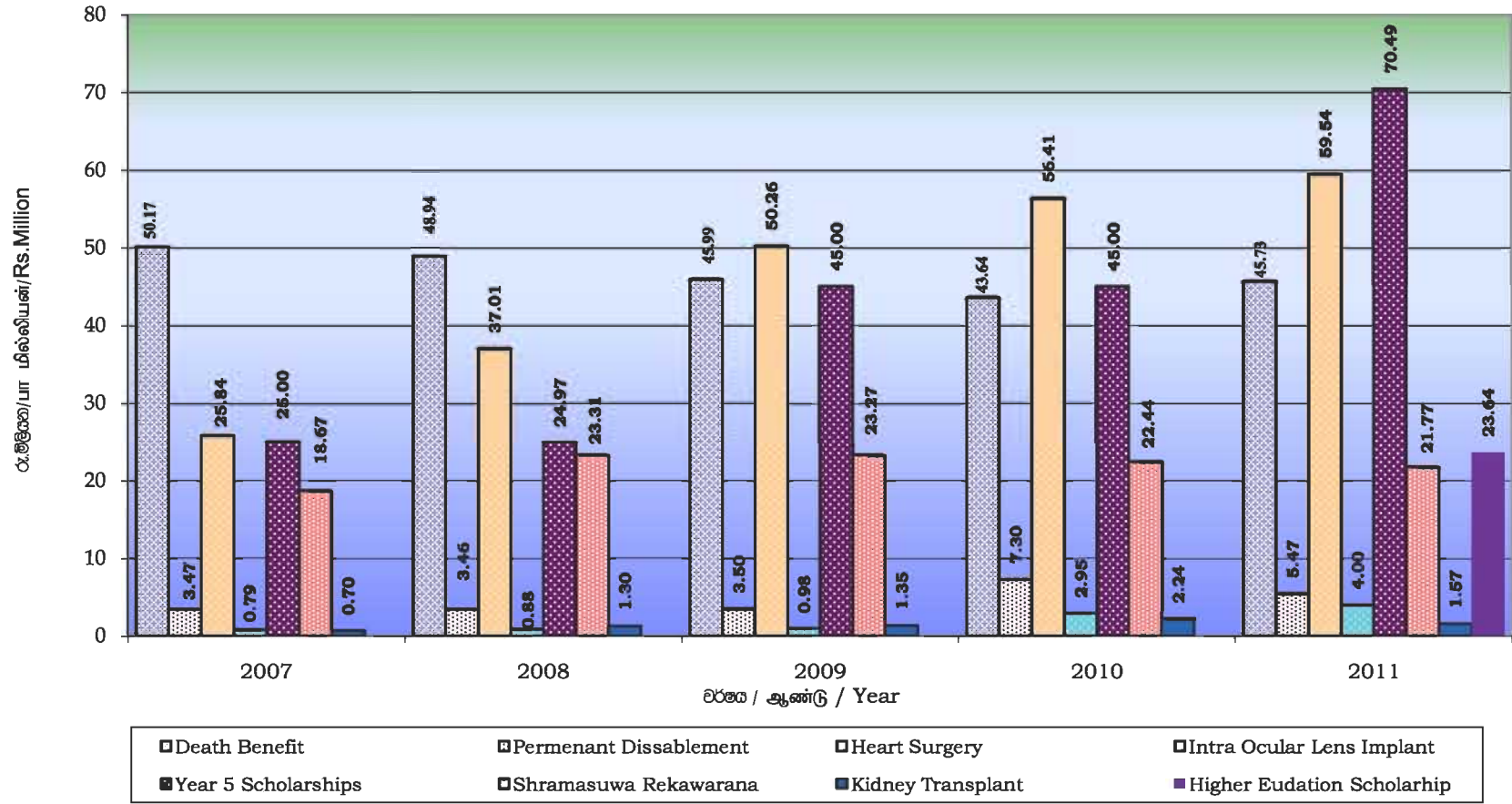
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2002 - 2011

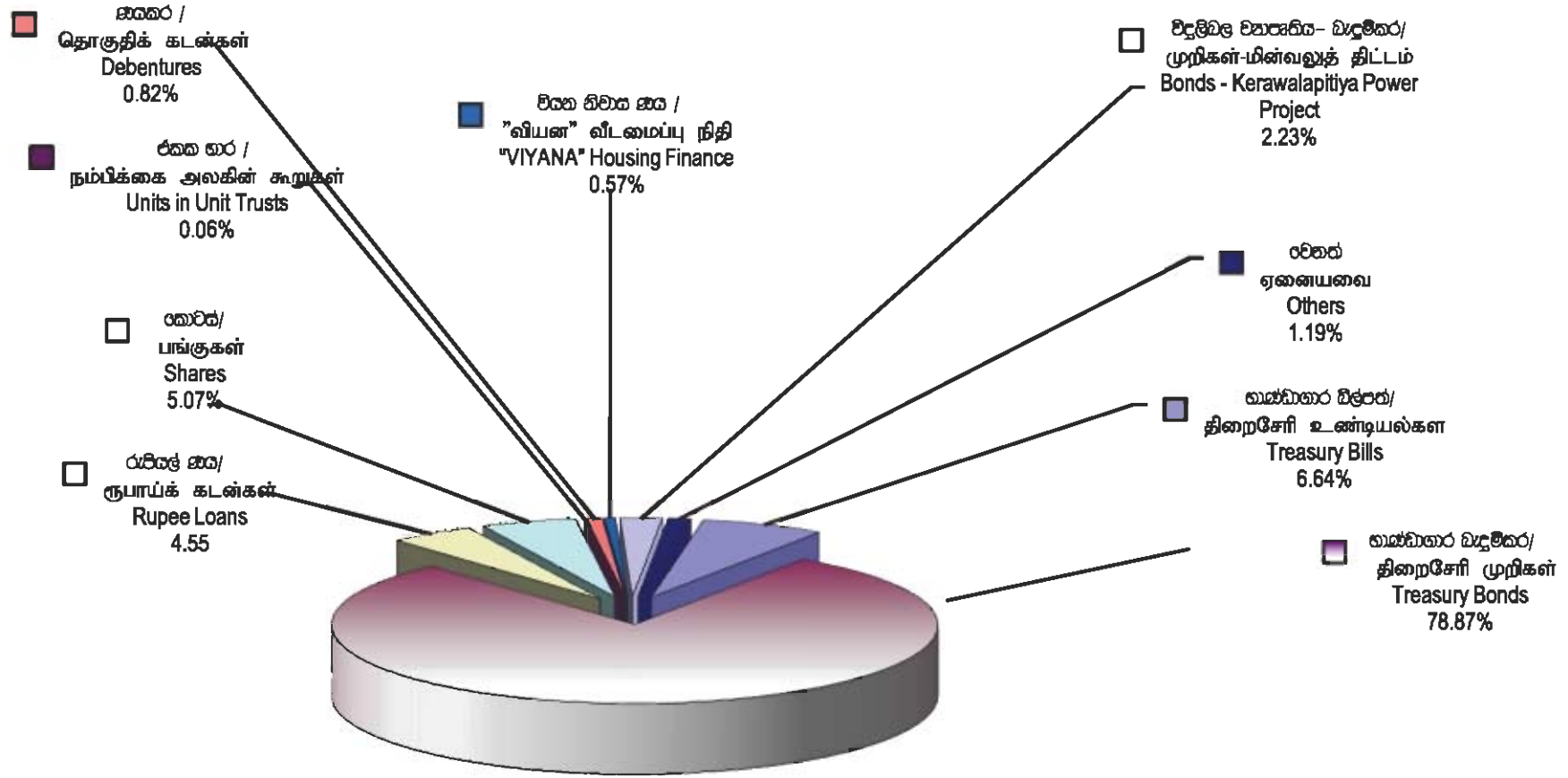


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 நலன் தரும் திட்டங்கள் -தீர்க்கப்படாத கோரல்கள்
MEMBER BENEFIT SCHEMES
 2007 - 2011



புள்ளிப்படம் / வரைபடம் / Graph - 8

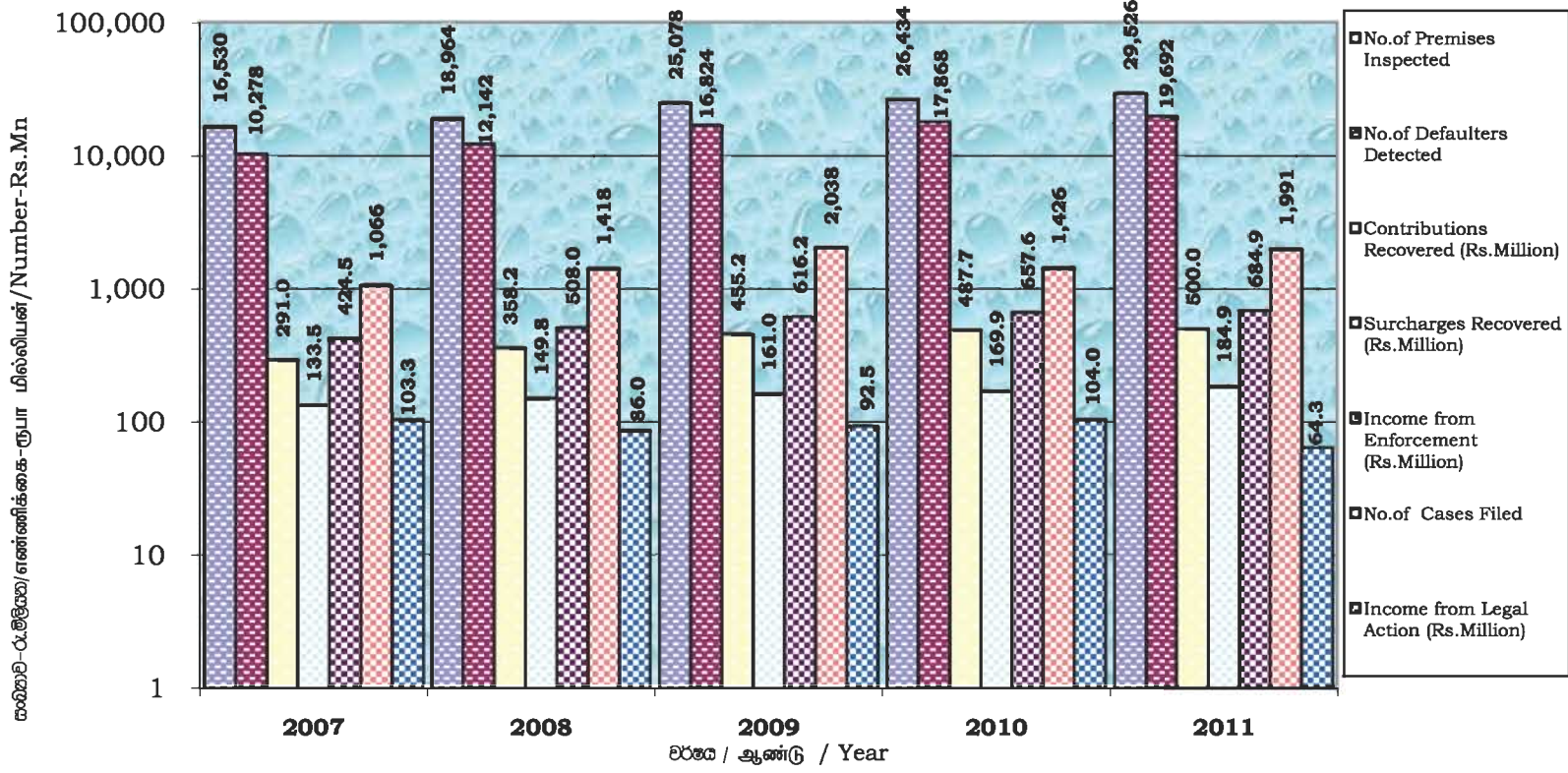
அடிக்கட்டுரை / முதலீடுகளின் பாகங்கள் / INVESTMENT PORTFOLIO 2011





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சேகரிப்பு, தொழில் தருநர் உறவுகள் பகுதிகளின் செயற்பாட்டுத்திறன்
PERFORMANCE OF COLLECTION & EMPLOYER RELATIONS DIVISION
2007 - 2011



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