

CHAIRMAN'S REVIEW

The Annual Report for 2002 marks the watershed for enduring change at the Employees' Trust Fund, which commenced from last March. The objective of the re-structuring was to deliver value to the members and to introduce more transparency in board's operations.

The scenario was dismal before the beginning of 2002, where it took one to six months to process a claim, while Annual Member Statements were snagged up since 1998. The ETF had neither focused on operational effectiveness nor financial efficiency. There were questions of efficiency relating to maximizing the returns on investments in the equity and debt market. The customer was seen as someone separated from the board's operations, the focus was mainly internal. The branch network was more an attempt at appeasing the political powers that be, than one

where efficiency and effectiveness counted. The IT system was dysfunctional and could not support the processing of member information and was major cause for the non remittance of Annual Member Statements, which in turn had biased public

opinion against the board. We, I am happy to indicate, have transformed all of the above. The most significant development in the re organization was the rationalization of the branch network. Prior to this all of the ten branches except one were operating at a deficit. The new management matched 25% of the employers, contributing 80% of the revenue, where the concentration was on Colombo zone (1-7), Colombo zone (8-15), Colombo Sub urban Office as well as the main regional branches at Gampaha, Kandy and Galle. The rest of the network was converted to liaison offices or sub branches to service members in Hambantota, Hatton, Badulla, Ratnapura and Kurunegala. A new sub branch was scheduled to be opened in Anuradhapura at the beginning of the year 2003. The result: Yielded tremendous cost savings

with all branches operating at a surplus. The compliance rate among employers increased by 12%. The monthly collection averaged Rs.300 Million from the previous average of Rs.270 million. Enforcement too was strengthened and registered a 100% increase on account of income from surcharges.

In 2002 ETF's investment income grew by 16% while income from other sources grew by 100%, enabling the declaration of an annual dividend of 12%.

The customer service interface was strengthened through a dedicated Customer service unit. Introduction of a fee based "Express Service" which processed a claim in 2 working days, while normal claims were processed within 21 working days on average with 65% consistency during this period. We also were able to process Special Claims, for the benefit of those who cannot afford Rs.1,000/= for the "Express" channel, but still needed their dues processed quickly due to urgent necessity.

The board took several meaningful steps in

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bringing the board closer to the employers. Where as the employer relationship previously was one of enforcement, we bridged the divide through many “employer forums” firstly to educate them on what was happening to their contributions in terms of investment income and secondly what benefits were available to their employees inter alia benefit schemes.

The prevailing benefit schemes were more terminal benefits, i.e. Life insurance, disability insurance, Surgical and hospitalization schemes. During this period we introduced 2 schemes which directly helped the members while meeting employers’ priorities in terms of Human Resources Development. The “:Viyana” housing loan scheme with the collaboration of the NDB and “Denuma” educational loan facility

with HNB’s co-operation. The latter enables aspiring senior and middle level professionals to qualify in their masters or professional examinations. We take justifiable pride in our achievements, but we cannot be too optimistic in these achievements being sustained unless the mindset and attitudes of the people within the board too undergoes radical change. We had recruited two dynamic professionals to fill the gaps as Head of Finance and General Manager, to provide stewardship to a more stable organization than what was inherited in February 2002. To create a robust institution geared to serve the millions of employees, who are yet to claim their terminal benefits, perhaps even before the mandatory age, due to the prevailing dynamic labour market environment, is the duty of

the new board and its management.

In conclusion, I wish to thank on behalf of the board of directors, the Advisory board, the consultants, the management and staff of the board for supporting our effort at changing the outlook of the ETF. We also thank the officials of the Ministry of Finance who have been at hand to assist us whenever we need them, amidst many constraints. We have crossed the initial threshold, the future is in the hands of the team we have put together with much effort. I look forward to the same unstinted co-operation in the future too.

Dinesh Weerakkody,
CHAIRMAN.

The Chairman,
Employees' Trust Fund Board.

Report of the Auditor General on the Accounts of the Employees' Trust Fund Board for the year ended 31 December 2002 in terms of Section 10 (7) of the Employees' Trust Fund Act No. 46 of 1980

The audit of accounts of the Employees' Trust Fund Board for the year ended 31 December 2002 was carried out under my direction in pursuance of provisions in Article 154 (3) 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 report in terms of Section 10 (7) of the Employees' Trust Fund Act appears below.

1:2 Scope of Audit

Audit opinion, comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and the extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit included examination of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles and significant estimates and judgements made in the preparation of financial statements, evaluation of their overall presentation and determining whether accounting policies adopted were appropriate, consistently applied and adequately disclosed.

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2. Accounts

2;1 Audit Opinion

Except for the effects of the adjustments arising from the matters referred to in paragraph 2:3 of this report, I am of opinion, that the financial statements have been satisfactorily prepared to present fairly in all material respects, the financial position of the Board as at 31 December 2002 and the results of its operations and the cash flow for the year then ended in accordance with Sri Lanka Accounting Standards and the stated accounting policies as set out in Notes 1 to 4 to the financial statements.

2:2 Financial Results

According to the accounts presented, the operations of the Board for the year ended 31 December 2002 had resulted in a surplus of Rs.4,656,094,658 before the provision for interest on the contributions of members and for income tax as compared with the corresponding surplus of Rs.4,028,961,494 for the preceding year.

2.3 Comments on Accounts

2.3.1 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) A sum of Rs.4,094,644 paid as Advance Company Tax on the dividends received by the Board for the year under review had not been included in the income account. However, this had been taken into consideration in computing tax and the relevant tax amounting to Rs.409,464 had been included in the income account.
- (b) The provision for accrued liabilities in respect of the year under review had been understated in the accounts by Rs.6,579,822.

- (c) Unclaimed benefits amounting to Rs.686,677 in respect of 113 members had been omitted in the accounts.
- (d) Necessary adjustments had not been made in respect of 105 cheques amounting to Rs.564,544, that had been issued but not presented for payment as at end of the year in respect of 3 bank accounts.

2.3.2 Accounts Receivable and Payable

Following observations are made.

- (a) Fourteen sundry debtor balances totalling Rs.1,199,626 and 04 Sundry creditor balances amounting to Rs.15,620,724 had not been confirmed. Of this, debtor balances aggregating Rs.1,104,213 and all the creditor balances remained outstanding for over 4 years.
- (b) Out of the interest income receivable amounting to Rs.1,326,169,163 a sum of Rs.32,478,379 had been outstanding for over three years and of this, balances amounting to Rs.22,379,769 related to periods ranging from 5 to 11 years.
- (c) A sum of Rs.1,089,517 spent by the Board on behalf of 5 external institutions, a sum of Rs.745,168 due from officers who had left the Board and advances amounting to Rs.83,861 had remained unsettled for periods ranging from 01 to 07 years and action had not been taken to recover the above sums even during the year under review.
- (d) The balance of the unclaimed benefits account amounting to Rs.8,206,386 included balances relating to the period 1984 to 2001 and the balance of the death benefit account amounting to Rs.2,566,787 included balances relating to the period before 1995 to 2001. But, adequate steps had not been taken to settle these balances.

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2:3:3 Lack of Evidence for Audit

Fixed assets valued at Rs.42,347,654, seventeen Bank balances amounting to Rs.50,585,183 stationery stocks valued at Rs.1,841,233, provision for depreciation amounting to Rs.9,539,311 and death benefits amounting to Rs.2,566,787 shown in the accounts could not be satisfactorily vouched or accepted in audit due to the non-availability of annual Board of Survey reports, Registers of Fixed Assets and schedules, confirmation of balances, Bank Reconciliation Statements, in respect of 4 bank accounts and detailed schedules, etc.

2:3:4 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

The following instances of non-compliance were observed in audit.

- (a) Employees' Trust Fund Act,
 - (i) Section 8(i) – Non intimation of members' account balances to the members before 30 September in each year.
 - (ii) Section 27 and Section 6 of the (Amendment) Act No.3 of 1982 – Non- recovery of surcharges in time at the specified rates in addition to the contributions in respect of delayed contributions.
- (b) Section 131 of the Inland Revenue Act No.38 of 2000 - Action had not been taken to recover withholding tax at 10 % in making payment of rent over Rs.50,000 and remit it to the Commissioner General of Inland Revenue.
- (c) Save the Nation Contribution Act. No. 5 of 1996 – All the items that should be added to the salary had not been included in computing contributions for the period from 1 April 1999 to 30 June 2000.

- (d) (i) Section 5(1) of Payment of Gratuity Act No. 12 of 1983 - Non-payment of gratuity to the employees who are entitled for gratuity, within 30 days after leaving the service.
- (d) (ii) Section 4 of Payment of Gratuity (Amendment) Act No.62 of 1992 – Surcharges had not been paid in respect of delay in payment of gratuity.
- (e) Public Finance Circular No. PF/PE 21 of 24 May 2002 –Draft Annual report had not been furnished within 60 days of closure of the accounting year.
- (f) Public Finance Circular No. PF/PE 17 of 19 October 2001 - Quarterly Performance Reports had not been sent in respect of the year under review.
- (g) Board Decision No. 7647 – Payment for medical leave for 2002 erroneously for the officers who left the services contrary to the respective decisions.

2.3.5 Transactions Not Supported by Adequate Authority

The following observations are made.

- (a) Officers had been employed in Acting Posts more than the maximum period of 3 months by superseding the provisions in the Circular No.124 dated 14 October 1997 of the Secretary to the Treasury and Section 13(3) of Chapter II of the Establishments Code.
- (b) Combined allowances had been paid at rates higher than those prescribed in the Establishments Code approved by the Cabinet of Ministers from July 1999 merely on the approval of the Board of Directors.

3. Financial and Operating Review

3:1 Financial Results

The operations of the Board for the year under review had resulted in a surplus of Rs.4,656,094,658 as compared with the surplus of Rs.4,028,961,494 for the preceding year thus indicating an increase of surplus by Rs.627,133,164. The corresponding increase of surplus for the preceding year was Rs.1,243,963,349.

3.2 Performance

The following observations are made.

- (a) Although the expected collection of contributions was Rs.4,021 million, only a sum of Rs.3,544 million had been collected during the year under review. It was 11.36 % below the expected amount.
- (b) Although the expected investment income was Rs.5,922 million, only a sum of Rs.5,097 million had been earned. It was 13.93% below the expected amount.
- (c) An income of Rs.5 million was expected from the Express Claim Scheme introduced during the year under review. But only a sum of Rs.3.87 million had been earned and it was 22.6 % below the expected amount.
- (d) The expenditure expected on benefit schemes for members during the year under review was Rs.150.4 million whereas the actual expenditure was Rs.209.58 million, thus indicating an increase of 39.34%. The corresponding increase for the preceding year was 51.69%, when compared with the preceding year.
- (e) Although it was intended to curtail the total expenditure by Rs.50 million during the year under review, it had been increased by Rs.86 million when compared with the preceding year. The percentage increase was 25.4.

- (f) Although it was expected to increase the Fund by Rs.6,639 million or 19.2% during the year under review, it had increased only by Rs.5,435 million and it was less by Rs.1,204 million or by 18% from the expected values.
- (g) Although it was expected to pay a 14% benefit to the members during the year under review, only a 12% benefit had been paid.
- (h) Recovery of surcharges completed during the year under review was only up to 1999.

3.3 Payment of Fund Balances and Benefits of the Members

The following observations are made.

- (a) The interest rate paid by the Board to its members since the inception up to the end of the year under review was the minimum interest rate of 3% stipulated in Section 22 of the Act.
- (b) The percentage of dividends paid for individual balances of the members in terms of Section 14 of the Act was always below the interest rates for the Treasury Bills for the respective years.
- (c) The percentage of interest paid in awarding prizes to the students succeeded at the fifth year examination from the inception was at a higher rate than the rate of benefit (shown in paragraph (a) and (b) above) paid to the members.
- (d) Dividends at 8% declared for the preceding years had not been paid in respect of 61,456 applications, out of the benefit applications paid during the first 6 months of the year under review.
- (e) A sum of Rs.30 million from the surplus of the preceding year and Rs.108 million from the provision for diminution in value of shares and unit trusts had been utilised for declaring 12% benefit for the year under review.

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3:4 Notification of the Members' Balances annually to the Members

According to information made available to audit, an inordinate delay was observed in the notification of the members' balances. Particulars relating to the institutions to which members' balances had been notified in respect of the last 4 years as at end of the year under review are given below.

Year	Number of Institutions Registered	<u>Members' balances notified</u>	
		Number of Institutions	Percentage
-----	-----	-----	-----
2001	67,905	962 *	1.41
2000	67,808	1,791 *	2.64
1999	48,693	19,525	40.09
1998	46,757	23,532	50.32

* Members balances had not been notified to the small scale institutions for these two years.

3:5 Investments and Income from Investments

Following observations are made.

- (a) The value of investments of the Board as at beginning of the year under review amounted to Rs.34,635 million and the value as at end of the year was Rs.39,477 million after making adjustment for purchases and realizations during the year.

- (b) Although Debentures totalling Rs.40,300,000 had matured, in December 1991, April and May 1999 and 2002, the Board had not received the proceeds even up to the end of the year under review.
- (c) Interest income amounting to Rs.40,882,098 due since 1991, 1992 and 1994 in terms of investment agreements had not been received by the Board even upto end of the year under review.
- (d) The Board had not received any return on investments aggregating Rs.80,949,202 made during the period 1987 to 1995 from the date of investment up to the end of the year under review.
- (e) Provision of Rs.53,093,186 comprising Rs.19,974,382 and Rs.33,118,804 respectively ; had been made in the Income Account for the year under review in respect of the risk in obtaining the money invested in Guaranteed promissory notes and debentures and the interest receivable.

3:6 Transactions of a Contentious Nature

Following observations are made.

- (a) Following transactions had taken place contrary to the provisions in Sections 106, 107 and 108 of the Inland Revenue Act, No. 38 of 2000 and Public Finance Circular No. PF/PE/6 of 31 January 2000.
 - (i) PAYE Tax amounting to Rs.185,914 recoverable from the employees for the period 01 April to 31 December 1997 had been paid by the Board without recovering from the employees.
 - (ii) Arrears of tax recoverable from the employees in respect of the years of assessment 1997/1998, 1998/1999, 1999/2000 and 2000/2001 (3 months) amounting to Rs.1,433,915 had been paid by the Board without recovering from the employees.

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- (iii) A sum of Rs.265,806 recovered from employees in respect of the period 1998 and 1999 (up to September 30) had been refunded to the employees.

- (b) (i) PAYE Tax Circular for 2001/2002 -
Tax under Tax Table No.2 that should have been recovered from the employees in respect of allowances (bonus and allowances paid for leave unavailed) fall under once for all allowances had been paid by the Board.

- (ii) Taxes recoverable from the employees in reimbursement of medical bills had also been paid by the Board during the year under review.

- (c) Tax on taxes arisen in terms of Schedule 6 of the Tax Circular, due to payments made contrary to circular instructions as indicated in paragraph (a) and (b) above had neither been paid nor taken action to make payments.

3:7 Uneconomic Transactions

Following observations are made.

- (a) A bank current account had been maintained with a balance with no operations for over 5 years.

- (b) Investments amounting to Rs.446,956,121 made in shares of 42 companies other than the companies referred to in Paragraph 3.5(d) above and investments amounting to Rs.57,000,000 made in unit trusts had not yielded any benefit for the year under review.

- (c) (i) Action had not been taken to obtain the insurance premiums for the period after sale and the no claim bonus from the Insurance Corporation in respect of 7 vehicles sold during the year under review.
- (ii) A vehicle had been sold without obtaining insurance claim on account of the accident and this insurance claim had not been obtained even as at end of the year under review.
- (d) (i) Automatic life Assurance Scheme and the Heart Surgery Scheme which were paid by the board up to the year under review and had been handed over to the insurance companies with effect from 01 June 2002 by paying monthly premiums amounting to Rs.4,125,000 and Rs.1,403,718 respectively for the above 2 schemes. Accordingly, the board had to incur an additional expenditure as insurance premium.
- (ii) The maximum number of beneficiaries of these Schemes during the preceding years was less than 2000 per year and as such; the reasons for obtaining insurance policies covering around 100,000 members were not explained to audit.

3:8 Budgetary Control

Significant variances were observed between the budgeted income and expenditure and the actuals thus indicating that the budget had not been made use of as an effective instrument of management control.

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4. Systems and Controls

Special attention is needed in respect of the following areas of control.

- (a) Recovery of surcharges on delayed contributions and institution legal action
- (b) Amounts receivable and advances
- (c) Issue of annual statements of accounts to the members
- (d) Maintenance of ledgers
- (e) Internal audit
- (f) Cash and banking activities
- (g) Action upon audit queries

Sgd. (S.C. MAYADUNNE)

AUDITOR GENERAL

BALANCE SHEET AS AT 31ST. DECEMBER 2002

	Notes	31.12.2002 Rs.	31.12.2001 Rs.
ASSETS			
NON-CURRENT ASSETS			
Fixed Assets	7		92,020,409
INVESTMENTS			
Government Securities	8	31,540,629,732	26,787,090,259
Others	9	<u>7,443,997,678</u>	7,079,883,362
Deposits	10		1,000,000
CURRENT ASSETS			
Stocks of Stationery		1,841,233	2,176,390
Receivables and Prepayments	11	1,791,269,526	1,379,425,625
Cash & Bank Balances	12	24,026,085	1,817,136,844
			<u>40,894,784,663</u>
			<u>35,387,751,400</u>
EQUITY AND LIABILITIES			
MEMBERS FUND as at 01.01.2002			
Add: Adjustments			34,553,418,327
Contributions received during the year			79,511,369
			<u>3,544,674,273</u>
			38,177,603,969
Less: Refunds made during the year			<u>(2,465,085,174)</u>
Balance as at 31.12.2002			35,712,518,795
Add: Interest		1,071,375,564	914,287,646
Dividends		3,214,126,692	2,438,100,390
			<u>39,998,021,051</u>
Excess of Income over Expenditure			88,360,841
Dividend Equalization Reserve			400,000,000
			<u>34,553,418,327</u>
NON-CURRENT LIABILITIES			
Provision for Gratuity	13		38,330,520
			<u>28,745,685</u>
CURRENT LIABILITIES			
Sundry Payables	14	343,513,153	375,245,138
Bank Overdrafts	15	26,559,098	370,072,251
			<u>40,894,784,663</u>
			<u>35,387,751,400</u>

CERTIFIED AS CORRECT

Sgd.
Dinesh Weerakkody,
Chairman.

Sgd.
U.Gamini Sarath,
Director.

Sgd.
J.M.Waidyaratne,
Deputy General Manager (Finance).

936,030,908.73
2496082423

2:3 Comments on Accounts

2:3:1 Accounting Deficiencies

- (a) The adjustment relating to Advance Company Tax will be done during the accounting year 2003.
- (b) i. The amount of Rs. 158,122/= which is payable to the Department of Labour, had not been provided in the accounts since this has not been identified as a liability of the Board. However, it is generally accepted that payment of *RATES* is a liability of the owner and not of the tenant.
- ii. A provision of Rs. 1,594,954 had been made for electricity for the year 2002.
- iii. A provision of Rs. 478,000/= had not been made as a valuation report had not been obtained for the Wekanda premises.
- (c) Adjustments will be made in the accounts in the year 2003 after scrutinizing the balances of Unclaimed Benefits.
- (d) Necessary adjustments will be made in the accounts during the year in respect of stale cheques and action will be taken to cancel the cheques that have exceeded 06 months.

2:3:2 Accounts Receivable and Payable

(a) Balances of Sundry Debtors

Ministry of Labour	Rs. 626,900
Ministry of Youth Affairs	Rs. 22,999
Vocational Training Authority	Rs. 286,205
Ministry of Fisheries	Rs. 78,434
Sri Lanka Navy	Rs. 74,980
Bartleet Co. Ltd	Rs. 2,959
Forbes & Walker Co.	Rs. 59,797
Standard Chartered Bank	Rs. 7,510
Sri Lanka Telecom	Rs. 12,547
ETF Sahana Sala	Rs. 25,000
Talawakele Plantation Co.	Rs. 2,298
	<u>Rs. 1,199,629</u>

(b) Balances of Sundry Creditors

I.B.M.Computers	Rs. 15,160,076
Colombo Dockyard Co. Ltd	Rs. 456,498
Mr. Premaratne Banda	Rs. 3,150
Korea Ceylon Co. Ltd	Rs. 1,000
	<u>Rs. 15,620,724</u>

It has been noted to take further action regarding the above balances of debtors and creditors.

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(c) Expenses incurred on External Institutions

Ministry of Labour	Rs. 626,900
Ministry of Youth Affairs	Rs. 22,999
Vocational Training Authority	Rs. 286,205
Ministry of Fisheries	Rs. 78,434
Sri Lanka Navy	Rs. <u>74,980</u>
	Rs. <u>1,089,518</u>

A detailed reply had been submitted to you in response to your Audit Query No. HS/I/ETF/AQ/6/01 dated 12.06.2002 regarding the dues from ex-employees and miscellaneous advances amounting to Rs. 745,168/= and Rs. 83,861/= respectively.

(refer annexures 01,02 and 03)

(d) Balance of the unclaimed benefits account includes the value of returned cheques due to closure of residencies, change of addresses, cancellation of bank accounts, non-banking of cheques to proper accounts etc. However, a sum of Rs. 13,404,311,217/= had been released in respect of payment of 1,609,326 claims from 1985 to 2002.

Further, we attach herewith extracts of paper advertisements published in daily and weekend news papers in Sinhala, Tamil and English in respect of the awareness of members on 14.06.2001 and 17.06.2001 for your easy perusal. (refer annexures 04, 05, 06, 07)

2:3:3 Lack of Evidence for Audit

- i. Annual Board of Survey Reports, Registers of Fixed Assets and Schedules, Confirmation of Balances and Bank Reconciliation Statements had been submitted for audit.
- ii. Detailed schedules for death benefits amounting to Rs. 2,566,787/= will be submitted in due course.

2:3:4 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

- (a) i. Since the member statements were not entered regularly there was a delay in up-dating the member statements from 1981. However, the present management had taken steps to expedite the issuing of member statements. There had been an increase in the issuing of member statements during the year as it was 283,756 nos. in December 2002 when compared with 136,939 nos. in January 2002.
- ii. There was a delay in collection of surcharges since 1999. Steps had been taken to expedite the recoveries and it would be possible to up date the collections by the end of year 2003. The collection of surcharges amounted to Rs. 41.53 million in 2002 when compared to 22.13 million in 2001, resulting in an increase of 88%.

- (b) In accordance with the Section 131 of Inland Revenue Act No. 38 of 2000, 5% Withholding Tax had not been deducted and remitted to Commissioner General of Inland Revenue when rent was paid. However, at present 10% Withholding Tax is being deducted from payment of rent exceeding Rs. 50,000/= per month and remitted to Commissioner General of Inland Revenue.
- (c) An amount of Rs. 96,873/= had been remitted as Save the Nation Contribution for the period 01st. April 1999 to 31st. March 2000. Action will be taken to remit the arrears of SNC contribution after further scrutiny
- (d)
 - i. Settlement of Gratuity Payment would be made within 30 days for those who leave the services of the Board.
 - ii. Payment of Surcharges will not arise since the payment of gratuity will be made within the stipulated period.
- (e) A draft annual report will be submitted.
- (f) Quarterly Performance Reports had been submitted on due dates.
- (g) Payment for un-availed Medical Leave will not be made in future.

2:3:5 Transactions Not Supported by Adequate Authority

- (a) Acting appointments were given under the new management with the reorganization of the board which have not been confirmed due to delay in approval by the ministry of the Finance. However, the view of the board of directors is that the period of three months is not sufficient for the evaluation of efficiency of an officer.
- (b) Combined allowances had been paid in accordance with the rates prescribed in the Financial Regulations of the Board.

3:2 Performance

- (a)-(g) The expected targets on increasing of collection of contributions, investment income, reduction of expenditure, increasing the rate of member benefit etc. were not realistic and hence we utilized the earlier estimates. However, there had been an increase of 15% in income for the year under review when compared to the previous year.
- (h) Reply given in para 2:3:4 (a) ii, is also relevant to this.

3:3 Payment of Balances and Benefits to Members

- (a)-(b) The policy of the board, since it's inception, is to make a provision of a minimum of 3 % as interest and declare dividends, based on the financial results for the year.

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- (c) From 1995 the board of directors had decided to maintain the Scholarship Fund by themselves in order to invest the funds prudently enabling higher rate of interest for scholarship holders.

The percentage of interest and dividends payable to total membership is determined after setting off total expenditure. The Board of Directors had decided that when determining the quantum of interest to the scholarship holders only certain expenditure should be considered. This resulted in a higher rate of return been paid to the scholarship holders than the members. However the board has now decided to pay the same rate of interest to the members and the scholarship holders.

- (d) There was a delay in declaring the rate of dividends for the year 2001 due to non-appointment of Board of Directors at the beginning of the year 2002. Due to this reason members who claimed their dues prior to declaration of dividends for the year 2001 were paid without such dividends. However, at present action has been taken to pay the arrears of dividends for the year 2001 on the request of claimants.

3:4 Notification of the Members' Balances annually to the Members

Action has been taken by the board to update the issuing of annual members' statements by engaging three service bureaus for this purpose and engaging the staff on a night shift as well. It is planned to update the issuing of the annual members' statements by the end of year 2003.

3:5 Investments and Income from Investments

- (b) The following debentures have matured during the period under review. But, the funds were not received to date.

Trans Lanka Ltd	Rs. 7,800,000/=
Elkaduwa Plantations Ltd	Rs. 15,000,000/=
Mathurata Plantations Ltd	Rs. 15,000,000/=
National Housing Development Authority	Rs. <u>2,500,000/=</u>
Total	Rs. <u>40,300,000/=</u>

Action is being taken continuously to recover these amounts from the above companies.

- (c) The interest receivable for the years 1991, 92 & 94 as indicated by you, had not been received yet. The break-up of interest receivable is as follows;

Trans Lanka Ltd	Rs. 12,688,089/=
Elkaduwa & Mathurata Plantations Ltd	Rs. 19,793,329/=
Treasury Bonds	Rs. <u>10,014,739/=</u>
Total	Rs. <u>42,496,157/=</u>

- (d) The board had not received any investment income from the following companies and the aggregate value of investments are as follows;

Power & Sun Co. Ltd	Rs. 1,000,000/=
Lanka Cement Ltd	Rs 27,630,390/=
Magpec Export Ltd	Rs. 22,471,974/=
Ceylinco Seylan Development Ltd	Rs. 24,500,000/=
Riverina Hotel	Rs 435,600/=
Employees' Holdings (Pvt) Ltd	Rs. <u>4,766,038/=</u>
Total	Rs. <u>80,804,002/=</u>

The payment of security charges to Employees' Holdings (Pvt) Ltd., had been withheld until the above amount is settled in full. The value of security charges retained for this purpose as at 31.12.2002 was Rs. 1,842,425/=.

- (c) A provision of Rs, 19,971,382/= and Rs. 33,118,801/= had been made respectively for the doubtful investments and investment income receivable during the year under review.

Investments

Trans Lanka Ltd - Debentures	Rs. 7,800,000/=
Vanik Incorporation Ltd-Promissory Note	Rs <u>12,171,382/=</u>
Total	Rs. <u>19,971,382/=</u>

Investment Income

Elkaduwa Plantations Ltd	Rs. 17,791,556/=
Vanik Incorporation-Debenture Interest	Rs. 15,965,932/=
-do- Interest on Promissory Note	<u>Rs 367,724/=</u>
	Rs. 34,125,212/=
Less: Amount received form Trans Lanka	Rs. <u>1,006,411/=</u>
Total	Rs. <u>33,118,801/=</u>

3:6 Transactions of a Contentious Nature

- (a) i. The amount paid to employees and not recovered during the period 01st.April 1997 to December is Rs. 122,348/= and not Rs.185,914/=.
- ii. This expenditure has arisen due to the erroneous computation of P.A.Y.E. The arrears payable had been made to the Department of Inland Revenue.
- iii. This reimbursement had been made to the employees on the approval of Ministry of Finance.
- (b) i, ii A part of tax payment in respect of bonus and un-availed medical leave had been borne by the board as per approval given by the board decision nos. 7619 & 7647 taken at the Board Meetings held on 06.12.2000 and 03.01.2001 respectively.
- (c) Tax on tax will be deducted from the year 2003.

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3:7 Uneconomic Transactions

- (a) Action has taken to close the Current Account No. 215 at Peoples Bank, Thimbirigasyaya by letter dated 27th. March, 2003.
- (b) We have received dividends during the year under review from the following Companies.

A.M.W.Company Ltd.	Rs. 217,970/=
NAMAL	Rs. 999,999/=

- (c) i. A request had been made to the Insurance Corporation of Sri Lanka on 31.10.2002 to obtain a no claim bonus on vehicles sold during the year under review. In reply to the above Sri Lanka Insurance Corporation had informed that out of seven vehicles sold, Accident Compensation had been granted for 02 vehicles during the year, as such Rs.11,943.32 had been credited to our account as No Claim bonus for the balance 05 vehicles.
- ii. Action had been taken to recover the Accident Compensation from the third party for the damage occurred to the Isuzu Fargo Vehicle No. 61-7758 on 01.02.2001. Approval had also been obtained from Sri Lanka Insurance Corporation and no question has arisen regarding the recovery of insurance compensation with the sale of vehicle. We have been informed that since relevant action had already been taken insurance compensation would be received in due course.
- (d) i,ii It was anticipated that after the planned awareness drive, there would be an unprecedented increase in the number of claims received. Therefore the Board of Directors decided to outsource the Automatic Life Insurance and Heart Surgery Assistance Schemes with a coverage of hundred thousand members.

There was an actual expenditure of Rs. 52.78 million for 1,458 members as life insurance in the year 2001. The board had entered into an agreement with Sri Lanka Insurance Corporation to pay Rs. 49.50 million for the coverage of one hundred thousand members in the year 2002. Hence this insurance scheme would be advantages to the board.

The actual expenditure of Rs. 93.9 million incurred on Automatic Life Insurance scheme could be analyzed as follows:

	<u>Number of Members</u>	<u>Amount (Rs.Mn.)</u>
Amount incurred by the board	1,665	64.9
Insurance Premium for the year 2002		<u>28.9</u>
		<u>93.8</u>

The board had spent Rs. 10.0 million on Heart Surgery Assistance scheme for 105 members in 2002 compared to Rs. 14.0 million for the coverage of one hundred thousand members. Outsourcing of this scheme was also favourable to the board as per the following analysis.

The break up of the actual expenditure of Rs. 19.9 million during the year 2002 was as follows:

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	<u>Number of Members</u>	<u>Amount (Rs.Mn.)</u>
Amount incurred by the board	105	10.0
Insurance Premium for the year 2002		<u>9.8</u>
		<u>19.8</u>

With regard to death claims the procedure had been to accept claims up-to a period of 02 to 02 ½ years from the occurrence of death (this period had been changed time to time), i.e. There will be a possibility of submitting a death claim for a death which occurred for instance on 20th. December 2001 till 20th. December 2003 and payment would be made in 2004.

The sum of Rs. 14 million paid for the coverage of Heart Surgeries taken place during the period 01.06.2002 to 31.05.2003 would also be valid for a heart surgery done on 31.05.2003. Under this scheme Rs. 13,900,000/= had been paid to 151 beneficiaries during the period 01.06.2002 to 03.04.2003. When compared to the above data, these insurance schemes may be considered advantageous to the board.

4. Systems and Controls

- (a) An effective programme has been launched to impose surcharges on default contributions and to institute legal actions against defaulters and actions have been taken to collect surcharges avoiding delays as well as formalize legal action.
- (b) Further action would be taken to recover the amounts and advances receivable.
- (c) The board had already assigned 3 Service Bureaus to update the issuing of Annual Member Statements in order to expedite these activities.
- (d) A modern software package named *AccPac* will be implemented from 22nd. April 2003. Since this would be a highly sophisticated accounting package when compared with the existing software, it would be more helpful to keep accounting records effectively. Accordingly the deficiencies experienced with the current accounting system will not arise in the future.
- (e) The Internal Audit Division which started with basic functions had developed greatly, catering to the multiple needs of the board at present.

The Internal Audit Division was utilized effectively as a multi faceted managerial tool distinct from it's traditional role, contributing directly to improving management processes.

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As a result correct decisions could be taken in compliance with the procedures at various management levels.

However, it is acceptable when considering the computerized member accounts of the fund and hundreds of existing processes, the Internal Audit Division could prove to be very useful.

- (f) Necessary actions had been taken, to maintain cash and banking affairs effectively, to get additional income investing excess funds in bank accounts prudently on daily basis, and to maintain bank accounts avoiding overdrafts etc.
- (g) The matters relating to handling audit queries etc. had been assigned to an officer who attends to these functions on a full time basis.

Sgd. Dinesh Weerakkody,

***Chairman,
EMPLOYEES' TRUST FUND BOARD.***