

Employees' Provident Fund
ANNUAL REPORT
2017



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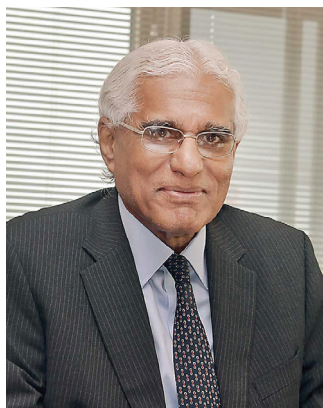
OUR VISION

To be the most caring superannuation fund in the region enabling our members to have a contented retirement life

OUR MISSION

To provide maximum retirement benefits and an efficient service to our members through prudent and innovative management of the Fund

MESSAGE FROM THE CHAIRMAN OF THE MONETARY BOARD AND THE GOVERNOR OF THE CENTRAL BANK OF SRI LANKA



I am pleased to present this message to the Annual Report of the Employees' Provident Fund (EPF/the Fund) for the year 2017 on behalf of the Monetary Board of the Central Bank of Sri Lanka (CBSL).

Amidst several challenges, EPF continued to record a robust financial performance in 2017 as well. While the total assets surpassed the Rs. 2.0 trillion milestone, being the largest financial institution in Sri Lanka, the Fund reported the highest ever net income during the year under review. Accordingly, by end 2017, the total value of the Fund increased by 12.2 per cent from Rs. 1,841.5 billion to Rs. 2,066.3 billion, while the net income for the year was Rs. 202.9 billion. The return on investments, in 2017, was 11.83 per cent compared to 11.43 per cent recorded during the previous year. Accordingly, extending its accomplishment further, EPF was able to declare an attractive rate of interest of 10.50 per cent p.a. on member balances, a double-digit return for the 12th consecutive year.

The year 2017 witnessed some volatility in the domestic and international financial markets. Excessive liquidity position in the market that prevailed at the beginning of the year was seen tapering off during the course of the year. The rising inflationary expectations in the economy instigated by excessive monetary and credit expansion propelled tightening of the policy rates in March 2017. Despite uncertainty looming in the global economy with Federal Reserve's tightening monetary policy program and its spill-over effects on emerging and frontier markets, the domestic economy retained foreign investor interest as the foreign holding of Government securities continued to increase throughout the year, also aided by improvements in fiscal operations.

As far as capital market developments are concerned, there were several key policy initiatives during the year in order to enhance the transparency in the Government securities market. The Public Debt Department of CBSL rolled-out a new primary issuance system for Treasury bonds with effect from July 2017 establishing a more structured and regular monthly Treasury bond auction system. Having introduced

a Bloomberg electronic trading platform for trading of Government securities in the previous year, a further step was taken during 2017 to broaden its scope by extending the trading platform to repurchase transactions in a bid to improve transparency of the money market further. Such advances are gradual steps in the right direction to develop the country's capital market and EPF, being predominantly the largest investor in Government securities will accrue the ultimate benefits to the members from a developed and transparent capital market.

As at end 2017, the investment portfolio of the Fund consisted of 91.3 per cent in Government securities, 4.2 per cent in equity, 2.1 per cent in corporate debentures and Trust Certificates and the remaining 2.4 per cent in Fixed Deposits. Having reviewed its investment strategy and framework, with the technical assistance of the World Bank (WB) and the Risk Management Department of CBSL, EPF is currently in the process of implementing a well-structured framework for the fund management function.

As for more recent developments, investment policy documents namely; Investment Policy Statement and Investment Guidelines were revamped and internal controls were strengthened in order to mitigate EPF's operational risks. Furthermore, the implementation of a comprehensive ICT solution for EPF with a view of modernizing and integrating its outdated enterprise software and systems with the financial assistance of the WB is progressing as planned. I am of the view that these developments in the internal and external environment will empower EPF to deliver even more sustainable performance in years to come.

EPF continued to work on improving the quality of services to the members during the year under review through continuation of the Image Scanning Project with a view of improving the efficiency of member services by establishing a near-paperless operating system. Further, in order to strengthen the electronic collection procedure and to provide more avenues and flexibility to employers, the feasibility to introduce a payment gateway through the EPF official website was assessed and initiatives have already been taken in this respect. Other member services such as Mobile Service Programmes were carried out during the year in collaboration with the Department of Labour, Department of Registration of Persons, Registrar General's Department and respective District/Divisional Secretariats, to whom I wish to extend my gratitude for being part of making EPF services more accessible and hassle-free for the members.

In light of this, on behalf of the Monetary Board, I wish to take this opportunity to express my sincere appreciation to the staff of the Department of Labour and the EPF Department of CBSL, for their commitment towards these accomplishments during the year.

Most importantly, the Monetary Board wishes to express its sincere gratitude to all the members of EPF, for the continued confidence they have placed in the hands of CBSL in managing their life-long earnings and we shall continue to uphold our duty to ensure a secure and contented retirement to its members.

Dr. Indrajit Coomaraswamy

Governor, Central Bank of Sri Lanka

Chairman of the Monetary Board

MESSAGE FROM THE COMMISSIONER GENERAL OF LABOUR



The main objective of the introduction of Employees' Provident Fund Act, No. 15 of 1958 is to secure a better retired life with a good economic situation for the employees of the private and semi-government sectors of Sri Lanka. It can be observed that the EPF has at present become the foremost social security scheme of Sri Lanka when the assets and the number of members of the fund are taken in to consideration.

I would like to congratulate the staff of the EPF Department of the Central Bank of Sri Lanka on the issue of the Annual Employees' Provident Fund Report – 2017, analyzing the progress achieved in 2017 enhancing the productivity of services rendered to the members year after year by the Department of Labour and the Employees' Provident Fund Department of the Central Bank of Sri Lanka.

The Department of Labour has implemented many projects during year 2017 with the objective of ensuring industrial peace while maintaining the administration procedure of the Employees' Provident Fund systematically.

The Zonal offices throughout the island have provided services during year 2017 fulfilling the decentralization procedure of 30% prior benefit scheme. The television and radio advertising, creating awareness with regard to the importance of Employees' Provident Fund in retirement was continuously carried out in 2017 as well. Mobile services were carried out island wide at Department level as well as in collaboration with other public institutions in order to provide easy access to the Employees' Provident Fund and to provide an opportunity to resolve problems arising on the same.

Information Technology facilities were upgraded in order to strengthen the Employees' Provident Fund contribution payment as well as the payment of Employees' Provident Fund claims and thereby an efficient and productive service was provided to all parties.

I am grateful to all officers of the Department of Labour as well as the officers of the Employees' Provident Fund Department of the Central Bank of Sri Lanka who

contribute immensely in carrying out the statutory responsibilities of the Employees' Provident Fund and maintenance of better relationship among the employers and employees.

I truly hope that this Employees' Provident Fund Annual Report would be helpful for both employers and employees parties, officers of Administration and Finance institutions and all other stakeholders inclusive of Students who have an interest in the Subject.

A. Wimalaweera

Commissioner General of Labour



Senior Management Team as at 31.12.2017

Department of Labour (EPF Division)

Name	Designation	Division
Mr.D.P.K.R.Weerakoon	Commissioner of Labour	
Mrs.D.M.S.U.Dasanayake	Assistant Commissioner of Labour	Claim
Mrs.D.A.S.Wijesundara	Assistant Commissioner of Labour	
Mrs.L.H.Dissanayake	Assistant Commissioner of Labour	
Mr.D.P.D.Sadhdhasena	Assistant Commissioner of Labour	
Mr.M.N.H.Dharmaweera	Deputy Commissioner of Labour	Recovery
Mrs.R.M.A.Sugandhika	Assistant Commissioner of Labour	
Mrs.H.R.J.D.Gunathilaka	Assistant Commissioner of Labour	
Mrs.R.N.A.G.S.Nawarathna	Assistant Commissioner of Labour	
Mr.H.Thiranagama	Assistant Commissioner of Labour	30%Claim
Mrs.T.M.I.Lakmali	Assistant Commissioner of Labour	
Mr.M.H.D.L.A.Wijepala	Deputy Commissioner of Labour	Information Technology
Mrs.J.A.M.O.Wijayarathna	Assistant Commissioner of Labour	Administration
Mrs.A.K.Perusinghe	Assistant Commissioner of Labour	L Division
Mrs.B.A.M.A.Balasuriya	Assistant Commissioner of Labour	Stores/Promotion

EPF Department of the Central Bank

Name	Designation	Division
Mrs. K N N M Bandara	Superintendent	S/EPF Office
Mr. A G U Thilakarathna	Additional Superintendent	
Mr. J D S J Nanayakkara	Additional Superintendent	
Mr. J M Ameer	Deputy Superintendent	
Mrs. W L S W Jayasundara	Deputy Superintendent	
Mrs. M W K S Siriwardena	Senior Assistant Director (Corporate Services)	
Mr. S D H De S Jeewakaratne	Senior Assistant Superintendent	Corporate Services and Administration Division
Mr. M S Widanage	Assistant Superintendent	
Mr. P W Wimal Shantha	Assistant Superintendent	Collection Division
Mrs. D D I Brandygampola	Senior Assistant Superintendent	
Ms. G B N A Samaranayake	Senior Assistant Superintendent	Re-Registration Division



Ms. G B N A Samaranayake	Senior Assistant Superintendent	Current Contribution Division
Mrs. G P D Kaviratne	Senior Assistant Superintendent	
Mr. A A Wimal Gamini	Assistant Superintendent	
Mrs. P K D P S Dasanayake	Assistant Superintendent	
Ms. G B N A Samaranayake	Senior Assistant Superintendent	Statemented Contribution Division
Mr. S N Wijetunga	Assistant Superintendent	
Mrs. S M L Siriwardane	Senior Assistant Superintendent	E-Collection Division
Mr. M V W De Zoysa	Assistant Superintendent	
Mrs. D P A N D Perera	Senior Assistant Superintendent	Fund Management Division
Mrs. R A C C Rupasinghe	Senior Assistant Superintendent	
Mr. K U B Tennakoon	Senior Assistant Superintendent	
Mrs. D L Rohini	Senior Assistant Superintendent	
Mrs. L P S Perera	Senior Assistant Superintendent	
Ms. D P Udugamakorala	Senior Assistant Superintendent	
Mr. U P Jayasinghe	Assistant Superintendent	
Mr. W A W N Wanniarachchi	Assistant Superintendent	
Mrs. M Dissanayake	Senior Assistant Superintendent	Accounts and Reconciliation Division
Ms. E T W T R P Udakumbura	Assistant Superintendent	
Mr. A K Chathuranga	Assistant Superintendent	
Ms. W A N D Dias	Assistant Superintendent	
Mrs. D Y S Mahagederawatte	Senior Assistant Superintendent	Records Management Division
Mr. A T Upasena	Assistant Superintendent	
Ms. C P Jayaweera	Senior Assistant Superintendent	Record Amendments Division
Mrs. K M G C Bandara	Senior Assistant Superintendent	
Mrs. W G A C De Silva	Senior Assistant Superintendent	
Mr. W A C Wijesinghe	Senior Assistant Superintendent	Housing Loan Division
Mr. S Wijesinghe	Senior Assistant Superintendent	Refund Control Division
Mr. M K N D Dharmadasa	Assistant Superintendent	
Mrs. S A Jayawardena	Senior Assistant Superintendent	Refund Payments Division
Mrs. G G N M Perera	Assistant Superintendent	
Mrs. L S Gamage	Assistant Superintendent	30% Refund Payment Division
Mr. K A N L Ratnasekera	Senior Assistant Superintendent	Public Relations, Inquiries Counter & Call Centre



FINANCIAL HIGHLIGHTS

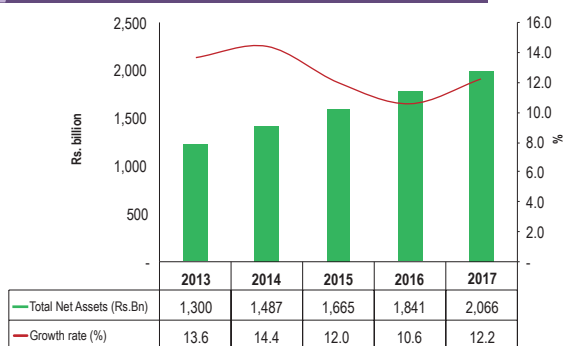
Table 1

Financial Highlights - 2017

Total Net Assets of the Fund	Rs. 2,066.30 bn
Contributions	Rs. 133.35 bn
Refund Payments	Rs. 117.48 bn
Net Contributions	Rs. 15.88 bn
Gross Income	Rs. 223.19 bn
Operational Expenditure	Rs. 1.35 bn
Tax Expenses for the Year	Rs. 18.90 bn
Net Income	Rs. 202.95 bn
Interest Credited to Member Balances	Rs. 191.24 bn
Rate of Interest credited to Member Accounts	10.50 %
Rate of Return on Average Portfolio	11.83 %
Operational Expenses as a percentage of the Total Income	0.60 %

Graph 1

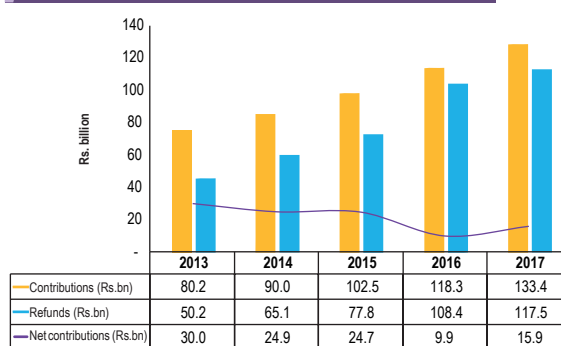
Growth of the Fund



Source: EPF Department, Central Bank of Sri Lanka

Graph 2

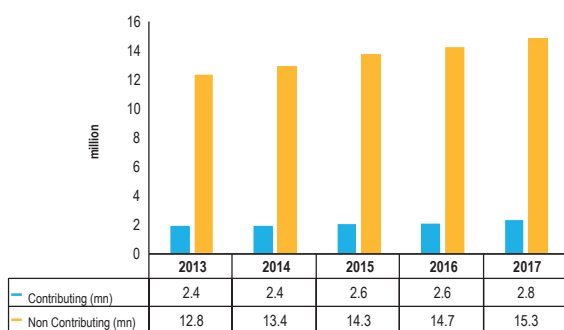
Contributions, Refunds and Net Contributions



Source: EPF Department, Central Bank of Sri Lanka

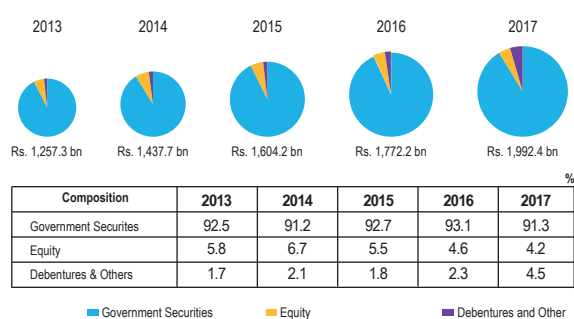


Graph 3 Number of Member Accounts



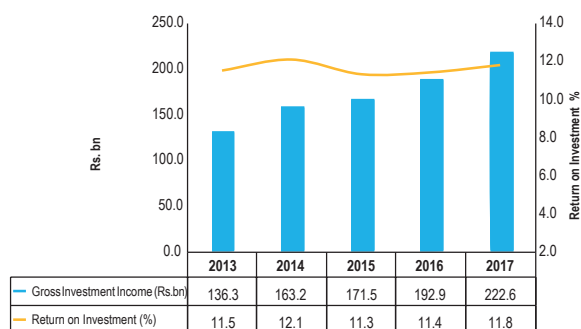
Source: EPF Department, Central Bank of Sri Lanka

Graph 4 Composition of Investment Portfolio



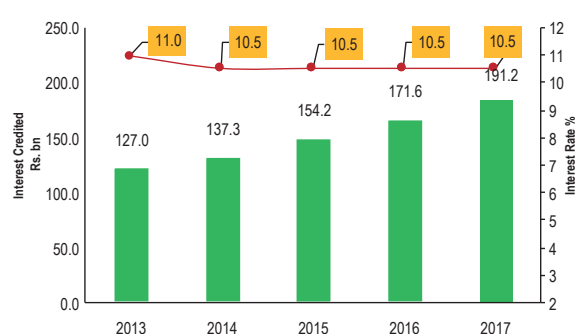
Source: EPF Department, Central Bank of Sri Lanka

Graph 5 Return on Average Investment Portfolio



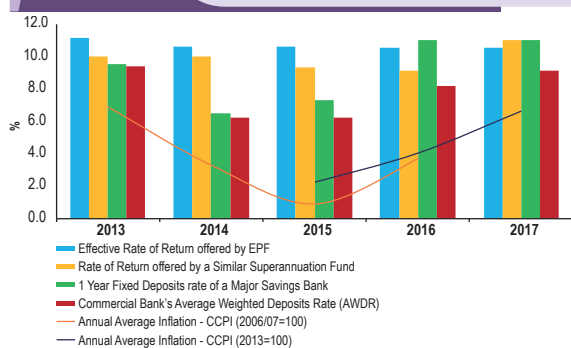
Source: EPF Department, Central Bank of Sri Lanka

Graph 6 Interest Credited to Year-End Balances of Member Accounts



Source: EPF Department, Central Bank of Sri Lanka

Graph 7 Effective Rate of Return for Member Balances vs. Market Rates



Sources: EPF Department, Central Bank of Sri Lanka
Annual Report 2017, Central Bank of Sri Lanka



OPERATIONAL HIGHLIGHTS - 2017

EPF Department of the Central Bank

- An annual interest rate of 10.50 per cent was paid on members' balances.
- Total number of member accounts increased to 18.1 mn.
- Total number of contributing member accounts are 2.8 mn.
- Total Value of the Fund increased to Rs. 2,066 bn.
- Retirement benefits amounting to Rs. 117.5 bn was paid to 230,902 members.
- Rs. 17.29 billion has been released to 32,789 beneficiaries under pre-retirement refund scheme.
- 10,998 certificates of guarantee were issued to members against their EPF account balances to obtain housing loans from participating lending institutions.
- Under the phase II of Image Scanning Project digitalization of Form C and C3 used for collection of contributions from employers during 2013, 2014 and 2015, refund worksheets from 2002 to 2015 except for the year 2013; individual Employer Ledger (IEL) for the period 1974 to 2009; amendment letters from 2010 onwards and re-registration documents belonging to the year 2014 was completed in year 2017.
- 22 mobile services were conducted.
- The number of employers registered under e-Return system has increased to 7,900 by end 2017 covering approximately 65 per cent of the active member accounts.
- Nearly 80 per cent of the total monthly EPF contributions were collected through the electronic media.
- 1.5 million Member Accounts have been re-registered by names as appearing in their National Identity Card (NIC) and assign the NIC number as the Unique Identification Number (UID) by end 2017.



OPERATIONAL HIGHLIGHTS - 2017

Department of Labour (EPF Division)

- Decentralization of the 30 per cent payment facility initiated in year 2015 so that it can be done through all Regional Labor Offices.
- Conduct of mobile services island wide, distribution of handbills and multifarious programmes to resolve problems of the Employees' Provident Fund members.
- Creating awareness among general public through television and other media promotions.



Regulatory Framework

The Employees' Provident Fund (EPF/Fund) is the largest superannuation fund in Sri Lanka. It was established under the Employees' Provident Fund Act No.15 of 1958 (Act) as a mandatory defined contribution retirement scheme for the private and semi-government sector employees who do not enjoy pension benefits. In terms of the provisions of the Act, the Commissioner of Labour acts as the general administrator of the Fund while the Monetary Board of the Central Bank of Sri Lanka (CBSL) is entrusted with the powers, duties and responsibilities to act as the custodian of the Fund. The Employees' Provident Fund Department of the CBSL facilitates the Monetary Board in discharging its powers, duties and functions entrusted by the Act.

The mandatory minimum contribution rate for the members of the Fund is 20 per cent of the gross monthly earnings of their employment. The employers and the employees (members) are required to contribute minimum rate of 12 per cent and 8 per cent of the member's monthly gross earnings, respectively, to EPF. Employers are liable to pay contributions and submit relevant member details of their employees to the Fund periodically. With the amendments to the EPF Act in 2012 and the regulations passed by the Parliament thereon, all employers having a minimum of 50 employees and above are required to pay the contributions and submit member details through electronic media on a monthly basis. Employers who has less than 50 employees (C category) can pay contributions and submit relevant member details in a Form C on a monthly basis.

The EPF members are eligible to claim their retirement benefits (contributions and interest) upon reaching the retirement age of 50 years for females and 55 years for males. In addition, members are also entitled to withdraw funds in their EPF accounts in the events of migration, permanent disability, leaving the employment due to marriage (only for female members) and joining a pensionable employment. Further, legal heirs of a deceased members are eligible to receive the benefits in the case of the death of a member. In addition to the retirement benefits, EPF facilitates members to obtain loans for housing purposes from five approved lending institutions by pledging the balances lying to the credit of their accounts. Further, as provided in the EPF (amendment) Act, No. 02 of 2012, members who have service of more than 10 years and EPF account balance of more than Rs. 300,000 are entitled to withdraw up to 30 per cent of the amount lying to the credit in their accounts for the purpose of house construction or medical treatment from 2015.



FUNCTIONS OF THE COMMISSIONER OF LABOUR

- Registration of employers and employees to the Fund.
- Carrying out inspections to ensure compliance with the EPF Act and taking legal actions against non-payment of member contributions.
- Recovery of surcharges on late contribution payments from employers.
- Acceptance of applications for refund of benefits and issuance of Letters of Determination on such applications advising the Central Bank to pay benefits.
- Authorization of the amalgamation of previous member accounts of a member.
- Approval of housing loans enabling members to obtain housing loans from approved lending institutions by pledging their member balances.

FUNCTIONS OF THE MONETARY BOARD OF THE CENTRAL BANK OF SRI LANKA

- Receipt of member contributions, surcharges and income.
- Maintenance of member accounts and issue of annual statements of individual accounts to the members.
- Investment of excess funds to provide maximum return to the members while ensuring the safety of the Fund.
- Crediting annual interest to member accounts at a rate approved by the Monetary Board with the concurrence of the Hon. Minister of Labour and the Hon. Minister of Finance.
- Maintenance of general accounts and preparation of annual accounts.
- Effecting refund of benefits in accordance with Letters of Determination issued by the Commissioner of Labour.
- Issuing of certificates of credit balances to relevant lending institutions facilitating to obtain housing loans.
- Submission of information such as financial statements and statement of investments to the Hon. Minister of Labour and Hon. Minister of Finance within 3 months from the end of each year.



- Re-Registration of names in member accounts as appearing in their National Identity Card (NIC).
- Effecting of 30 per cent refunds in accordance with Letters of Determination issued by the Commissioner of Labour.
- Correcting errors in member accounts, member names and National Identity Cards.

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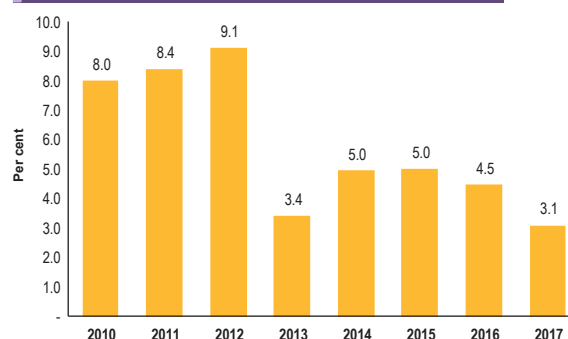
REVIEW OF ECONOMY 2017

1.1 Economic Growth and Macroeconomic Conditions

The Sri Lankan economy grew moderately by 3.1 per cent during 2017 in real terms, compared to a growth of 4.5 per cent recorded in 2016. The Services sector activities, which accounted for 56.8 per cent of real GDP, grew by 3.2 per cent in 2017 compared to a growth of 4.2 per cent in 2016. The growth in the Services sector activities was mainly due to the expansion in the financial services activities, wholesale and retail trade, and other personal service activities. The Industry activities, which represent 26.8 per cent of GDP, grew by 3.9 per cent in 2017 compared to 5.8 per cent in the previous year. The growth in manufacturing, construction, and mining and quarrying contributed to the growth in the Industry activities. The Agriculture related activities, which accounts for 10.0 per cent of real GDP contracted by 0.8 per cent during 2017, compared to a contraction of 3.8 per cent recorded in the previous year. The adverse weather conditions that continued from 2016 negatively affected the Agriculture performance.

Headline inflation as measured by the year-on-year change in both the National Consumer Price Index (NCPI, 2013=100)

Graph 8 Real GDP Growth



Source: Annual Report, Central Bank of Sri Lanka

1. Source Data was extracted from Central Bank Annual Report - 2017

and Colombo Consumers Price Index (CCPI, 2013=100) accelerated during 2017 due to food inflation caused by weather related supply disruptions. In the External sector, earnings from exports recovered strongly recording a growth of 10.2 per cent in 2017 having contracted for the last two consecutive years. However, the higher than expected expenditure on imports, which increased by 9.4 per cent during 2017 resulted in the trade deficit widening to 11.0 per cent compared to 10.9 per cent in 2016. The external current account deficit widened in 2017 as a result of higher trade and primary income deficits, and moderate earnings from tourism and workers remittances. In the Fiscal sector, the overall budget deficit increased to 5.5 per cent of GDP in 2017 compared to 5.4 per cent in 2016



due to both slippages in government revenue collection and the unanticipated government expenditure on drought and flood relief.

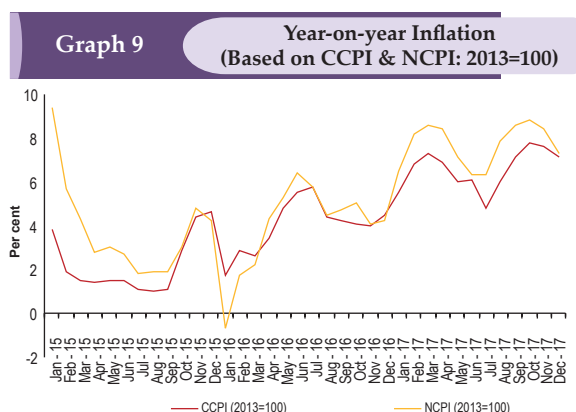
1.2 Inflation and Interest Rates

The general price level, as measured by the movement in both the NCPI (2013=100) as well as CCPI (2013=100) showed an increasing trend and remained at comparatively high levels. The year-on-year headline inflation as measured by the NCPI increased to 8.8 per cent in October 2017 before declining to 7.3 per cent, on a year-on-year basis by year end. Following a similar trend, the year-on-year headline inflation as measured by the CCPI reached its highest level of 7.8 in October before decelerating to 7.1 per cent by year end. The increase in inflation was mainly due to the increase in food prices due to adverse

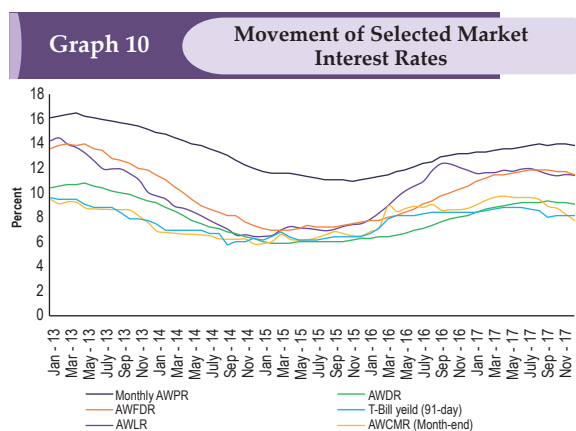
weather conditions. Meanwhile, year-on-year core inflation in terms of NCPI, decreased to 2.7 per cent in December 2017 compared to 6.7 per cent in end 2016. The year-on-year core inflation in terms of CCPI declined to 4.3 per cent by end 2017 compared to 5.8 per cent in December 2016.

Reflecting the relatively tight monetary policy conditions and the deficit liquidity position in domestic money market, the Average Weighted Call Money Rate (AWCMR) remained closer to the upper bound of the policy rate corridor, particularly until mid-July 2017. Thereafter, the AWCMR gradually declined to 8.15 per cent by end December 2017 on account of surplus liquidity in the money market. The Sri Lanka Interbank Offered Rate (SLIBOR) moved in line with the movements in AWCMR. Accordingly, the overnight SLIBOR stood at 8.15 per cent by end 2017 compared to 8.44 per cent recorded at end 2016.

Deposit and lending rates of commercial banks increased during 2017 reflecting the transmission of relatively tight monetary policy stance of the Central Bank. The Average Weighted Deposit Rate (AWDR), which reflects movements in interest rates pertaining to all outstanding interest-bearing deposits held with commercial banks stood at 9.07 per cent by end 2017, compared to 8.17 per cent in end 2016. The Average Weighted Lending Rate (AWLR), which is calculated based on all outstanding rupee denominated loans and advances extended by Licensed Commercial Banks to the private sector, increased by 68 basis points to 13.88 per cent by end 2017 from 13.20 per cent at end 2016. Reflecting the impact of monetary tightening measures of the Central Bank, credit extended to the private sector decelerated towards desired levels by end 2017.



Source: Department of Census and Statistics / Central Bank of Sri Lanka



Source: Central Bank of Sri Lanka



1.3 Wages and Unemployment

The overall unemployment rate declined to 4.2 per cent in 2017 compared to 4.4 per cent in the previous year. The decline in unemployment was mainly due to the increase in labor force as well as the employed population. The increase in the number of employed persons was observed in both Industry and Service activities while employment in the Agriculture sector declined due to subdued performance in agriculture activities. Meanwhile, employment in the public sector remained broadly unchanged while the total number of departures for foreign employment declined during the year mainly due to policy actions taken by the government to minimize departures in unskilled labor such as the housemaid category.

The nominal wages for the public-sector employees, as measured by the annual average change in the Public-Sector Wage Rate Index (2012=100) remained unchanged in 2017. However, the nominal wages for the employees in the formal private sector increased marginally. Both the public sector as well as employees in the formal private sector experienced a decline in real wages during the year due to a pickup in inflation. Meanwhile, wages of employees in the informal private sector grew in both nominal and real terms.

1.4 Monetary and Fiscal Policy

The Central Bank of Sri Lanka continued to maintain a tightened monetary policy stance in 2017 in order to contain adverse inflation expectations and the possible acceleration of demand driven inflationary pressures. In March 2017, the Central Bank increased its main policy interest rates, the Standing

Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) by 25 basis points to 7.25 per cent and 8.75 per cent, respectively. In addition, the Central Bank implemented macro prudential measures such as the imposition of loan to value ratios (LTV) on account of credit facilities for motor vehicles. Reflecting the tight monetary policy, monetary aggregates decelerated towards the desired levels by end 2017.

The government continued the fiscal consolidation programme under its fiscal policy, with the objective of reducing the budget deficit and the debt burden of the government. Several policy measures were introduced to enhance revenue collection, prioritize and rationalize government expenditure, strengthen the financial performance of state owned enterprises, and improve debt management strategies. However, slippages in revenue collection and unanticipated expenditure on drought and flood relief led to the widening of the overall budget deficit to 5.5 per cent of GDP in 2017 compared to 5.4 per cent of GDP in the previous year. The central government debt as a percentage of GDP decreased to 77.6 per cent in 2017 compared to 78.8 per cent in 2016 mainly due to deceleration in the growth of debt accumulation as well as the increase in nominal GDP growth. The overall budget deficit was largely financed through foreign sources in 2017. Accordingly, financing through foreign sources accounted for 59.9 per cent (Rs. 439.2 billion) while the share of financing through domestic sources contributed 40.1 per cent (Rs. 294.3 billion) of the total financing requirement during the year. In financing the budget deficit through domestic sources, the government relied more on domestic banking sources while the contribution from the non-banking sector declined in 2017. Financing from domestic

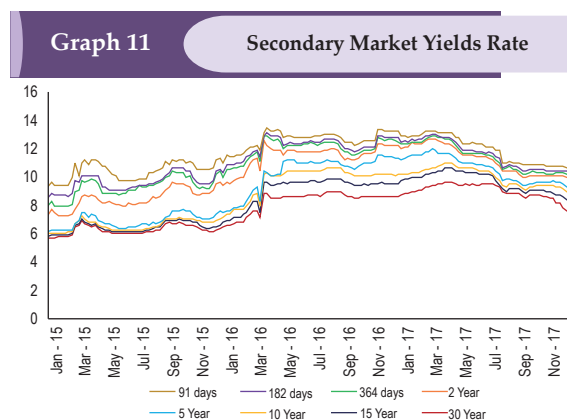


banking sector accounted for 63.8 per cent of total net domestic financing while the non-banking sector accounted for 36.2 per cent in 2016.

1.5 Government Securities Market & Movements in Yield Rates

Reflecting the tight monetary conditions and increased borrowing requirement of the government, yield rates of government securities in the primary market increased during the first four months of 2017. Thereafter, yield rates adjusted downwards supported by excess liquidity in the domestic market, increased government revenue and favorable market sentiments owing to the continuation of the IMF EFF programme. In addition, increased foreign inflows to the government securities market as well as the receipt of the proceeds of the ISB amounting to US dollars 1.5 billion, the syndicated loan proceeds totaling US dollar 1.0 billion and the proceeds of the divestment of Hambantota port amounting US dollars 292.1 million, reduced pressure in the government securities market from March 2017 onwards. Accordingly, yield rates on 91-day, 182-day and 364-day Treasury bills decreased by 204 basis points, 249 basis points and 221 basis points to 7.69 per cent, 8.30 per cent and 8.90 per cent, respectively, at end 2017 compared to end 2016. Displaying a similar trend observed in yields on Treasury bills in the primary market, Treasury bonds increased during the first quarter before moderating by end 2017. Accordingly, yields on 5-year Treasury bonds decreased from 11.76 per cent

at end 2016 to 10.20 per cent at end 2017. The secondary market yield curve for government securities shifted downwards and remained relatively flat in 2017.



1.6 Development in the Colombo Stock Exchange

Both indices in the Colombo Stock Exchange recorded improved performance in 2017. Accordingly, the All Share Price Index (ASPI) increased by 2.3 per cent compared to 9.7 per cent decline recorded in the previous year while the S&P SL20 index increased by 5.0 per cent in 2017 compared to a decline of 3.6 per cent in 2016. Meanwhile, market capitalization increased by 5.6 per cent in 2017 while the daily average turnover increased to Rs. 915.3 mn compared to Rs. 737.2 mn last year. Foreign investors accounted for 46.9 per cent of the total market turnover while the balance was from local investors. Foreign investments at the CSE, on a net basis, improved significantly to Rs. 17.7 bn, from Rs. 383.5 mn in 2016. The listed companies in the CSE raised Rs. 51.5 bn from 19 rights issues while Rs. 14.1 bn was raised via an IPO in 2017.

2

REVIEW OF THE PERFORMANCE OF EPF-2017

2. Introduction

The total net assets of the Fund reached Rs. 2,066.3 billion as at end 2017 recording a 12.2 per cent growth over Rs. 1,841.5 billion recorded by end 2016. The total number of member accounts was 18.0 million by end of 2017. The number of contributing member accounts was 2.8 million by end 2017, which was an increase of 7.7 per cent compared to 2.6 million in 2016, whilst non contributing member accounts to 15.2 million by the end 2017, compared to 14.7 million in 2016. Meanwhile, the number of contributing employers recorded an increase of 3.8 per cent to 76,308 by end 2017 from 73,482 reported at end 2016.

2.1 Member Contributions and Payments of Retirement Benefits

During 2017, member contributions increased by 12.7 per cent to Rs. 133.4 billion from Rs. 118.3 billion during 2016. The total amount refunded to the members and their legal heirs including 30 per cent pre-retirement refunds were Rs. 117.5 billion during 2017, indicating an increase of 8.38 per cent over that of Rs. 108.4 billion refunded during 2016. The total

number of refunds made during 2017 was 230,902, which was an increase of 23.38 per cent compared to 187,149 recorded during 2016. Accordingly, the net contribution (gross contributions less refunds) increased by 59.8 per cent to Rs. 15.9 billion compared to Rs. 9.9 billion recorded during the previous year. Compared to previous year, an increase in the net contribution was recorded during 2017 mainly due to the reduction of refunds under the facility to withdraw 30 per cent from member balances for housing and medical requirements. The total amount of 30 per cent refunds was amounted to Rs.17.3 billion and the amount of other refunds was amounted to Rs.99.50 billion. The cumulative of 30 per cent refunds as at the end of 2017 from 2015 amounted to Rs.59.5 billion. The total amount of refunds for the members reaching of retirement age increased by 19.50 per cent from Rs.58.91 billion during 2016 to Rs.70.4 billion during 2017. Meanwhile, the total amount refunded due to marriage by female members recorded an increase of 11.86 per cent to Rs.6.6 billion during 2017 from Rs.5.9 billion reported during 2016. As shown in the Table 02, the refunds made to members who reached the retirement age accounted for the largest share of the refunds, followed by 30 per cent refunds.



Table 2

Composition of EPF Refund Payments during 2017

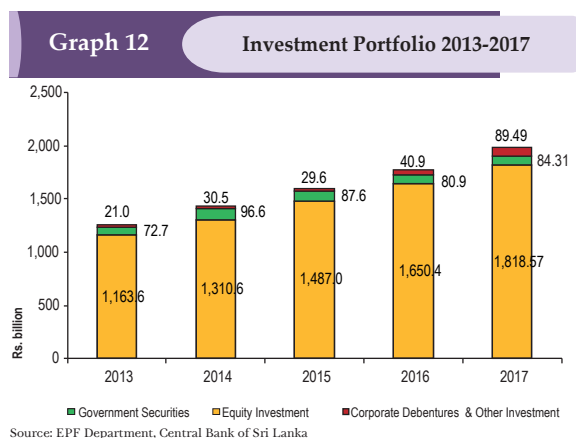
Basis of EPF Refund	Number of Refund Applications		Total Amount of Refund Benefits (a)	
	No.	%	Amount (Rs.bn)	%
Reaching of Retirement Age	88,109	52.23	70.37	61.04
30% Withdrawals	33,114	19.63	17.46	15.15
Due to Marriage	22,668	13.44	6.59	5.71
Migration	1,990	1.18	3.26	2.82
Medical Reasons	1,051	0.62	0.86	0.74
Death of Members	4,637	2.75	2.72	2.36
Joining a pensionable Job	14,342	8.50	10.49	9.1
Others	2,784	1.65	3.54	3.07
Total	168,695	100	115.29	100

(a) This includes only the first payment of refunds excluding, part payments, unclaimed payments and retained payments.

Source: Labour Department

2.2 Investment Portfolio of EPF

Similar to the past periods, the total investment portfolio (book value) of the Fund grew by 12.4 per cent from Rs. 1,772.2 billion as at end of 2016 to Rs. 1,992.4 billion as at end of 2017 (Graph 12).



In 2017, net income of Rs.202.9 billion and net member contributions of Rs. 15.9 billion

mainly contributed for the growth in the investment portfolio. The total investment portfolio consists of government securities, equity investments, corporate debentures, and other investments including fixed deposits. The concentration of investment in Government securities showed a marginal decline from 93.1 per cent as at end of 2016 to 91.3 per cent as at end of 2017 whereas the composition of investments in equity decreased to 4.2 per cent as at end of 2017 from 4.6 per cent as at end of 2016. Further, investment in corporate debt securities accounted for 2.1 per cent of the portfolio and the balance 2.4 per cent was invested in short term fixed deposits with state banks.

2.2.1 Government Securities Portfolio

The Government securities portfolio consisting of Treasury bonds and Treasury

**Table 3****Maturity Profile of Government Securities Portfolio as at end of 2017**

Maturity	Maturity Value (Rs. Bn.) (a)	Share (%)	Weighted Average Yield (%)
Less than 1 Year	185.90	9.6	10.72
1-2 Years	186.90	9.7	9.97
3-4 Years	157.70	8.2	10.82
More than 5 years	1,399.69	72.5	11.03
Total	1,930.19	100.00	10.88

(a) Nominal Amount

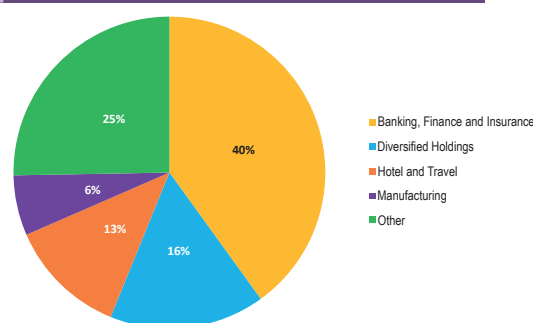
Source: EPF Department, Central Bank of Sri Lanka

bills grew by 10.2 per cent to Rs. 1,819 billion at end of 2017 from Rs. 1,650 billion at end of 2016. During 2017, EPF earned a coupon interest income of Rs.180.3 billion and recorded an amortization gain of Rs. 31.3 bn on the Government securities portfolio representing 94.78 per cent of the total gross income of the Fund. In 2017, the weighted average yield of the government securities portfolio was recorded as 10.88 per cent. As depicted in Maturity Profile given in Table 03, EPF continued to hold long maturing government securities. Accordingly, more than 72.5 per cent of the total Government securities portfolio represented maturities more than 5-years.

2.2.2 Equity Portfolio

The market value of Equity portfolio of EPF, which consisted of both listed and unlisted equities, increased by 4.28 per cent from Rs. 80.9 billion in 2016 to Rs. 84.3 billion in 2017. EPF continued to maintain a well-diversified equity portfolio (Available for Sale (AFS) portfolio) consisting of large companies in different sectors, such as Banking, Finance & Insurance, Diversified Holdings, Construction & Engineering, Power & Energy, Hotel & Travel and Telecommunication listed on the CSE (Graph 13). Mainly due to the dismal

performance of companies and market as a whole, the equity portfolio generated an income of Rs. 3.0 billion in 2017 through dividends and capital gains in comparison to Rs. 4.7 billion recorded in 2016. During the year 2017 EPF engaged in equity market activities in a very selective manner. Due to the continuous decline in the market value of certain equities, an impairment loss of Rs. 1.5 billion was incurred in respect of 10 listed companies in 2017.

Graph 13 Sectorial Composition of the Listed Equity Portfolio as at end of 2017

Source: EPF Department, Central Bank of Sri Lanka

2.2.3 Corporate Debt Portfolio

EPF invests in debt instruments such as corporate debentures, trust certificates and mortgage backed securities issued by companies/institutions with high credit



ratings. Accordingly, during 2017, EPF has invested Rs. 5,349 mn in two (02) corporate debt instruments issued by banking institutions with investment grade credit ratings. The corporate debt portfolio of the Fund stood at Rs. 41.5 billion as at end December 2017, constituting 2.1 per cent of the total portfolio. The Fund earned an interest income of Rs. 4,146 million on the corporate debt portfolio and the rate of return on average portfolio was 10.41 per cent during the year while weighted average time to maturity was 3.9 years.

2.2.4 Reverse Repurchase Transactions

The daily excess funds are invested in the overnight repo market and OMO window of Central Bank of Sri Lanka as part of the liquidity management of the Fund until the long term investments are made. During 2017, the Fund earned an interest income of Rs. 332.1

million from reverse repo transactions compared to Rs. 738.4 million earned in 2016.

2.2.5 Fixed Deposits

Based on the special approval granted by the Monetary Board, a marginal amount of the Fund was invested in Fixed Deposits with three state banks. Accordingly, as at end of 2017, the amount invested in Fixed Deposits was Rs. 48 billion and interest income of Rs. 3,594 mn was recorded during 2017.

2.2.6 Total Investment Income of the Fund

Total investment income of the Fund amounted to Rs. 222.6 billion in 2017 which recorded an increase of 15.4 percent compared to that of the previous year (Table 04). Interest income was the major source of income (84.6 per cent of the income) to the Fund which grew by 13.8 per cent from

Table 4

Investment Income of the Fund

Source of Income	2016		2017	
	Amount (Rs.mn)	Share (%)	Amount (Rs.mn)	Share (%)
Interest	165,485	85.8	188,346	84.6
Amortization gains*	28,171	14.6	31,289	14.1
Capital gains from Government securities	612	0.3	-	-
Marked to market gain/loss	(842)	(0.4)	1,477	0.7
Capital gains from equity	452	0.2	-	-
Dividends	4,263	2.2	2,994	1.3
Impairment of assets	(5,232)	(2.7)	(1,502)	(0.7)
Total	192,909	100.0	222,604	100.0

* Including WHT amortization

Source: EPF Department, Central Bank of Sri Lanka



Rs. 165.5 billion during 2016 to Rs. 188.3 billion during 2017. Further, there was no capital gains recorded in 2017 and dividends recorded a decline compared to 2016 from Rs. 4,263 million to Rs. 2,994 million during 2017. Amortization gains on Treasury bond portfolio increased by 11.1 per cent to Rs. 31.3 billion during 2017 from Rs. 28.2 billion during 2016 (Table 04).

2.3 Operational Expenditure

The total operational expenditure of the Fund decreased to Rs. 1,348.7 million in 2017, with 9 per cent decline compared to Rs. 1,487.2 million in 2016 mainly due to decrease in other expenses. Accordingly, operational expenses as a percentage of gross income decreased to 0.60 per cent during the year compared to 0.77 per cent in 2016. Maintaining operational expenditure of EPF below 1 per cent of the gross income is a significant achievement in light of industry norm of 1 to 2 per cent of managerial fees for fund managers (Table 05).

2.4 Tax Expenditure

In terms of Section 35 of Inland Revenue Act No 10 of 2006, EPF is required to pay 10 per cent of income tax. In 2017, the income tax expenses of the Fund was Rs. 18,897 million recording a 20.7 per cent increase compared to that of Rs. 15,657 million in 2016.

2.5 Member Account Balances and Interest Credited

In 2017, a sum of Rs.191.2 billion was credited to member accounts on their closing balances as interest. Accordingly, the value of the member balances increased by 11.6 per cent to Rs. 2020.8 billion as at end of 2017 compared to Rs. 1,810.6 billion as at end of 2016. Despite the volatile interest rate environment that prevailed during the recent years, the Fund was able to declare an interest rate of 10.5 per cent on the closing balance of member accounts for the year ending 31st December 2017, similar to the past year.

Table 5

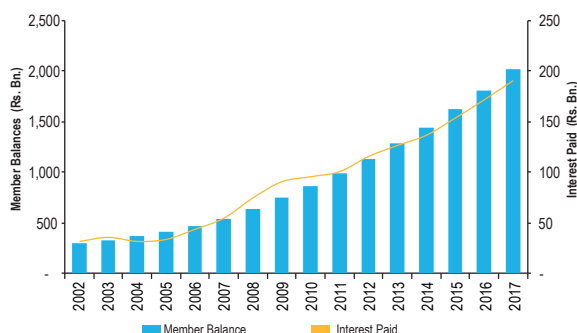
Operational Expenditure

Item	EPF Department of Central Bank			Labour Department			Total		
	2016 (Rs.mn)	2017 (Rs.mn)	Change (%)	2016 (Rs.mn)	2017 (Rs.mn)	Change (%)	2016 (Rs.mn)	2017 (Rs.mn)	Change (%)
Personnel Expenses	478	459	(3.97)	383	388	1.31	861	847	(1.63)
Administrative Expenses	231	296	28.14	172	158	(8.14)	403	454	12.66
Other Expenses	212	37	(82.55)	11	10	(9.09)	223	47	(78.92)
Total	921	792	(14.01)	566	556	(1.77)	1,487	1,348	(9.35)
Total Expenses as a % of Gross Income	0.48	0.36		0.29	0.25		0.77	0.61	

Source: EPF Department, Central Bank of Sri Lanka



Graph 14 Member Account Balances and Interest Credited



Source: EPF Department, Central Bank of Sri Lanka

2.6 Housing Loan Guarantee Facility

The Housing Loan Guarantee, introduced in 1988 with the objective of facilitating the members to obtain loans for construction

Table 6 Housing Loan Facility

Year	Number of Certificates Issued	Credit Approved (Rs. mn)	Amount Remitted to Lending Institutions to settle overdue loans of the Previous Year (Rs. mn)
2007	12,969	2,872	1,240
2008	12,519	3,008	1,192
2009	10,383	2,680	1,552
2010	13,848	4,512	2,093
2011	20,041	6,355	1,896
2012	11,234	3,973	2,019
2013	16,268	6,914	2,178
2014	17,786	8,021	2,394
2015	13,132	5,489	2,522
2016	12,780	5,414	2,541
2017	10,998	4,946	2,485

Source: EPF Department, Central Bank of Sri Lanka

of a house from the participating lending institutions, viz., Housing Development and Finance Corporation Bank, State Mortgage and Investment Bank, Bank of Ceylon, People's Bank and Co-operative Rural Banks, was continued in 2017. Under this scheme, EPF issued 10,998 certificates of guarantees to members against their EPF balances to the participating lending institutions as a security for obtaining housing loans amounting to Rs. 4,946 million. Further, nearly Rs. 2,485 million was deducted from relevant member accounts and remitted to the participating lending institutions in 2017 to settle the overdue loans relating to 2016.

2.7 Enforcement of Law

In accordance with the provisions of the EPF Act, the Department of Labour is responsible for the general administration and enforcement of the EPF Act. Accordingly, during 2017, the district labour offices and sub offices registered 7,710 new employers and 280,079 new employees covering all provinces. Half of the employers registered during the year 2017, were from the Western province while the Northern and the Eastern provinces together accounted for 6.3 per cent of the total employer registrations.

As per the provisions of the Act, the Department of Labour is empowered to take legal action against employers who do not pay member contributions. Accordingly, district labour offices and sub labour offices had sent 10,350 first notices and 6,261 red notices claiming overdue EPF contributions of Rs. 5,876 million and Rs. 3,775 million, respectively. Further, Rs. 1,093 million has been recovered by the Department of Labour by filing legal cases against 3,019 institutions which had failed to settle the arrears within 28 days after receiving the red notices.



Table 7

Enforcement of Law

Description		Year					
		2012	2013	2014	2015	2016	2017
New Registrations	Employers	9,799	6,822	7,213	6,736	7,134	7,710
	Employees	412,255	448,398	296,056	48,007	34,264	280,079
Provincial wise Employer Registrations (As a % of total Employer Registration)	Western	37	46	65	50	50	50
	Northern & Eastern	24	10	03	07	06.5	06.3
	Other	39	44	32	43	43.5	43.3
First Notices	No. of notices sent	13,134	12,807	12,132	9,015	10,074	10,888
	Amount Claimed (Rs. mn.)	4,604	5,100	6,280	4,018	4,464	5,876
Red Notices	No. of notices sent	7,874	8,411	13,578	5,670	6,508	6,613
	Amount Claimed (Rs. mn.)	2,792	6,132	1,121	2,864	3,454	3,775
Filed Cases	No. of cases	2,991	2,744	3,397	6,458	2,622	3,019
	Amount Recovered (Rs. mn.)	2,991	2,442	6,126	1,308	855	1,093

Source: EPF Department, Department of Labour

2.8 Re-registration of EPF Members

With the intention of providing an efficient service to EPF members, EPF and the Department of Labour launched a special project to re-register its members in 2010. Accordingly, names and National Identity Card (NIC) numbers of EPF members are collected and re-registered as per the NIC data, facilitating to identify them with a Unique Identification (UID) Number. This enables both EPF and the Department of Labour to establish a common Member Centric Database (MCD).

By end of 2017, NIC details of around 1.86 million of active EPF members (currently

contributing members) has been collected. Accordingly, 81 per cent accounts of these members (1.51 million accounts) were assigned UIDs, while the verification of remaining members' details is being processed. Further, necessary actions are in progress to expedite the process of re-registering all active member accounts of EPF.

2.9 e>Returns System for EPF Payments

The e-Return system which facilitates collection of EPF contributions and respective member details through electronic media was introduced by the EPF Department with a view of improving its operational efficiency in a paperless operating environment. This system



was operated on voluntary basis until the respective enactment, i.e. EPF (amendment) Act. No. 02 of 2012, was established and enforced its regulations by the Parliament in 2015 to absorb the employers having more than 50 employees in their employments. Remarkable transformations of this process took place in 2011 when Licensed Commercial Banks (LCBs) facilitated their EPF paying customers to make payments through their respective on-line banking facilities. In 2016, this was further strengthened with online data validation mechanism which was introduced along with real time member accounts updating procedure. Accordingly, six LCBs have joined EPF and two of which operate with real time member accounts updating service to their EPF paying customers.

Further, wider discussions were carried out with four LCBs that facilitate on-line EPF payments without the real time validation option for incorporating the said option in their on-line banking systems. Also, necessary technical guidance was provided to other interested banks for joining the EPF on-line payment system. In addition, actions were taken to make the employers further aware regarding the e-Return submission procedure and its benefits for EPF stakeholders. Accordingly, participation of employers in e-Return submission system was increased from 6,955 to 7,900 covering approximately 65% of the active member accounts. Further, nearly 80% of the total monthly EPF contributions were collected through electronic media as at end 2017.

In order to strengthen the electronic collection procedure further and to provide more avenues and flexibility to employers, the feasibility to introduce a payment gateway through the EPF official website was assessed. Initiatives have already been taken to develop the EPF website to implement this method.

2.10 Pre-Retirement Refund Scheme

In terms of the provisions in Employees Provident Fund (Amendment) Act, No. 02 of 2012 and the subsequent procedures passed by the Parliament, payments under the 30 per cent EPF pre-retirement refund scheme has been in operation since 1st July 2015. The scheme is in high demand by beneficiaries and Rs. 58.3 billion has been refunded to over 100,000 beneficiaries by the end of 2017 since the inception of the scheme. During 2017, Rs.17.29 billion has been released to 32,789 beneficiaries under this scheme.

2.11 The Image Scanning Project (ISP)

The Image Scanning Project (ISP) was implemented with a view towards improving the efficiency of services provided by the EPF Department by establishing a near-paperless operating system.

With the completion of Phase-I of the project, the traditional model of the EPF record room was converted into an e-Record room. All the Master File records, Form D (containing employer registration details) and Re-registration Documents have been scanned, indexed and uploaded to the Document Management System. The document retrieval, file updating, notifications and all other forms related functions have been made available for the departmental users at their own desktop. Most of the manual processes have been automated minimizing the involvement of staff members. This transformation has resulted in a considerable saving of time, cost, space and the human resources.

Based on the process efficiencies gained through phase-I, the phase-II of the project was initiated at the end of the year 2016 to



digitize the other frequently used forms/documents. The digitization of documents at the phase-II includes: Form C & C3 used for the collection of contribution from employers belonging to the years 2013, 2014 and 2015, Refund worksheets from 2002 to 2015 except for the year 2013; Individual Employer Ledgers (IEL) for the period 1974 to 2009; Amendment letters from 2010 onwards and Re-registration documents belonging to the year 2014. The above scope of the project was completed during the year 2017.

Refund payment and part payment processes were made efficient after the completion of the phase-II as all correspondences related to payments from 2001 were scanned and uploaded to the system. Also other member services such as name amendments and re-registered member detail amendments are also being made efficient.

At the end of year 2017, the scope of the phase-II of the project was extended to include the scanning & indexing of Form C & C3 belonging to the years 2016 & 2017.

2.12 EPF Mobile Service Programme

EPF mobile services in the year 2017 were conducted with a view towards enhancing delivery of member services at their convenience and the enhancement of public awareness on EPF operations.

Accordingly, during the year, the Department conducted 22 mobile services. Some of

these mobile services were conducted in collaboration with the Department of Labour, Department of Registration of Persons, Registrar General's Department and respective District/Divisional Secretariats.

EPF Department also participated for mobile services related to EPF, organized by government and non-government organizations to provide EPF related services.

Mobile services offered almost all the services a member could obtain by visiting the EPF Department located in Colombo, at their own area or work place. The services offered to the members and public through the awareness programmes included: issuing of EPF member balance statements, amendment of EPF member details and accounts, re-registration of member details, promoting online member balance inquiry service and e- return services and providing advice on overall EPF procedures.

In addition, awareness activities were conducted in parallel to the mobile services, targeting members, employers and other stakeholders on the services offered by the EPF using numerous communication media such as e-mail, posters, leaflets, video clips and presentations.

Prior to each mobile service programme, a special awareness programme is conducted for relevant employers, managers and other administrative staff members of respective employments with a view to enhance the effectiveness of the mobile services.





EMPLOYEES' PROVIDENT FUND STATEMENT OF INCOME AND EXPENDITURE


For the year ended 31 st December	Note	2017			2016
		Monetary Board	Labour Dept.	Total	Total
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Interest Income	5	188,346,052	-	188,346,052	165,485,417
Dividend Income	6	2,993,591	-	2,993,591	4,262,609
Realised Capital Gain on Financial Assets	7	5	-	5	1,063,965
Amortisation Gain on Held to Maturity Financial Assets	8	31,289,279	-	31,289,279	28,170,893
Net Gain on Financial Instruments at Fair Value Through Profit or Loss	9	1,476,850	-	1,476,850	(842,114)
Impairment of Financial Assets	10	(1,502,111)	-	(1,502,111)	(5,231,637)
Investment Income		222,603,666	-	222,603,666	192,909,133
Other Income	11	577,907	10,911	588,818	162,263
Gross Income		223,181,573	10,911	223,192,484	193,071,396
Operating Expenses	12	(792,889)	(555,783)	(1,348,672)	(1,487,240)
Operating Profit/ (Loss) before Income Tax		222,388,684	(544,872)	221,843,812	191,584,156
Tax Expense	13	(18,897,051)	-	(18,897,051)	(15,657,191)
Profit/ (Loss) for the Year		203,491,633	(544,872)	202,946,761	175,926,965
Retained Profit Brought Forward				189,341	215,575
Profit available for Distribution				203,136,102	176,142,540
Profit Distribution					
Less : Interest Paid on Refunds - Current Year				(4,624,262)	(4,645,766)
Add/ (Less) - Transfer from / (to) Profit Equalization Reserve				(7,000,000)	250,000
Interest on member balances as at 31 st December 2017@ 10.50% (2016-10.50%)				(191,243,838)	(171,557,433)
Balance Carried Forward for the Next Year				268,002	189,341

The accounting policies and notes on pages 248 through 289 form an integral part of the Financial Statements.

The Monetary Board is responsible for the preparation of these Financial Statements.

These Financial Statements were approved by the Monetary Board.

For and on behalf of the Monetary Board


.....
Dr. Indrajith Coomaraswamy
Governor
Central Bank of Sri Lanka


.....
K.N.N. Malkanthi Bandara
Superintendent
Employees' Provident Fund

Date : 26 February 2018



EMPLOYEES' PROVIDENT FUND
STATEMENT OF COMPREHENSIVE INCOME

<i>For the year ended 31st December</i>	Note	2017 Rs.'000	2016 Rs.'000
Profit for the Year		202,946,761	175,926,965
Other Comprehensive Income			
Net Gain/(Loss) on Changes in Fair Value of Available-for-Sale Financial Assets	14	6,033,647	(8,180,733)
Total Comprehensive Income for the Year		208,980,408	167,746,232

The accounting policies and notes on pages 248 through 289 form an integral part of the Financial Statements.

For and on behalf of the Monetary Board,

.....
Dr. Indrajith Coomaraswamy
Governor
Central Bank of Sri Lanka
Date : 26 February 2018

.....
K N N Malkanthi Bandara
Superintendent
Employees' Provident Fund



**EMPLOYEES' PROVIDENT FUND
STATEMENT OF FINANCIAL POSITION**


<i>As at 31st December</i>	Note	2017 Rs. Rs.'000	2016 Rs. Rs.'000
Assets			
Property, Plant and Equipment	15	298,672	276,675
Intangible Assets	16	1,137	1,261
Financial Assets - FVTPL	17	15,699,351	14,222,501
Financial Assets - Available for sale	18	138,947,786	162,552,422
Financial Assets - Held to Maturity	19	1,789,725,122	1,592,691,816
Financial Assets - Loans and Receivables	20	48,000,000	2,745,000
Inventory		11,928	9,286
Interest Receivable		59,674,181	54,435,170
Contributions Receivable		11,653,125	10,794,640
Other Current Assets	21	1,939,813	2,976,568
Cash and Cash Equivalents	22	3,273,943	4,385,242
		2,069,225,058	1,845,090,581
Liabilities			
Creditors	23	1,411	1,980
Accrual Expenses		149,016	185,065
Other Current Liabilities	24	2,775,212	3,406,489
		2,925,639	3,593,534
Total Net Assets		2,066,299,419	1,841,497,047
Represented by, Member Balances	25	2,020,782,471	1,810,594,518
		2,020,782,471	1,810,594,518
Reserves	26	45,248,946	30,713,188
Retained Profit		268,002	189,341
		45,516,948	30,902,529
Total Net Worth of the Fund		2,066,299,419	1,841,497,047

The accounting policies and notes on pages 248 through 289 form an integral part of the Financial Statements.

For and on behalf of the Monetary Board,


.....
Dr. Indrajith Coomaraswamy
Governor
Central Bank of Sri Lanka

Date : 26 February 2018


.....
K N N Malkanthi Bandara
Superintendent
Employees' Provident Fund



EMPLOYEES' PROVIDENT FUND RECEIPTS AND PAYMENTS ACCOUNT

For the year ended 31 st December	Note	2017			2016 Total Rs.'000
		Monetary Board	Labour Dept.	Total	
		Rs.'000	Rs.'000	Rs.'000	
Cash balance at the beginning of the year		4,385,242	67,514	4,452,756	3,718,959
Total Receipts	27	310,218,484	590,925	310,809,409	333,067,850
Total Payments	28	(311,329,783)	(600,745)	(311,930,528)	(332,334,053)
Cash balance at the end of the year		3,273,943	57,694	3,331,637	4,452,756

The accounting policies and notes on pages 248 through 289 form an integral part of the Financial Statements.

For and on behalf of the Monetary Board;

.....
Dr. Indrajith Coomaraswamy
Governor
Central Bank of Sri Lanka

Date : 26 February 2018

.....
K N N Malkanthi Bandara
Superintendent
Employees' Provident Fund



EMPLOYEES' PROVIDENT FUND
STATEMENT OF INVESTMENTS

Class of Investment	Note	Face value Rs.'000	Cost Rs.'000	Amortised Cost Rs.'000	Market Value Rs.'000	Book Value Rs.'000
As at 31st December 2017						
Treasury Bonds	17,18,19	1,855,665,266	1,692,832,248	1,748,768,953	1,851,789,868	1,748,785,406
Treasury Bills	18,19	74,475,428	68,295,753	69,746,857	69,832,608	69,783,696
Corporate Debentures	17,18,19	38,850,712	38,850,915	38,850,790	35,975,818	38,744,349
Trust Certificates	19	3,046,772	2,225,489	2,746,075	2,746,076	2,746,076
Listed Equity	17,18	-	78,670,401	78,670,401	74,042,107	74,042,107
Unlisted Equity	18	-	10,770,625	10,770,625	10,270,625	10,270,625
Fixed Deposits	20	48,000,000	48,000,000	48,000,000	48,000,000	48,000,000
		2,020,038,178	1,939,645,432	1,997,553,701	2,092,657,102	1,992,372,259
As at 31st December 2016						
Treasury Bonds	17,18,19	1,737,219,190	1,569,533,652	1,619,623,282	1,498,488,596	1,611,629,158
Treasury Bills	18	41,056,824	37,980,948	38,424,111	38,815,227	38,815,227
Corporate Debentures	17,18,19	34,343,590	34,345,794	34,345,710	34,058,321	34,359,359
Trust Certificates	19	4,499,810	3,397,594	3,832,592	3,832,592	3,832,592
Listed Equity	17,18	-	75,164,361	75,164,361	70,579,779	70,579,779
Unlisted Equity	18	-	10,770,625	10,770,625	10,270,625	10,270,625
Reverse Repo	20	2,745,000	2,745,000	2,745,000	2,745,000	2,745,000
		1,819,864,414	1,735,735,975	1,784,903,681	1,658,789,940	1,772,211,740

The accounting policies and notes on pages 248 through 289 form an integral part of the Financial Statements.

For and on behalf of the Monetary Board

Goshan Coomaraswamy

.....
Dr.Indrajith Coomaraswamy
Governor
Central Bank of Sri Lanka

Date : 26 February 2018

K N N Malkanthi Bandara
.....
K N N Malkanthi Bandara
Superintendent
Employees' Provident Fund



EMPLOYEES' PROVIDENT FUND STATEMENT OF CASH FLOWS

<i>For the year ended 31st December</i>	2017 Rs.'000	2016 Rs.'000
Cash flows from operating activities:		
Interest received from Investments	172,452,670	158,387,150
Dividends received from equity securities	3,570,306	2,817,019
Surcharges and Other Income	587,559	153,281
Recoveries from Receivables	52,523	1,088,846
Other Operating Expenses	(1,131,957)	(1,069,243)
Advance Payments	(6,819)	(9,574)
Settlement of Creditors and other Payables	(2,659,197)	(2,927,373)
Cash generated from operations	172,865,085	158,440,106
Taxes Paid	(10,214,556)	(7,869,247)
Net cash generated from operating activities	162,650,529	150,570,859
Cash flows from investing activities:		
Investment in Financial Assets	(586,459,418)	(826,843,887)
Maturities of Investments	406,955,384	615,601,139
Proceeds on sale of Financial Investments	-	51,531,146
Acquisition of Property, Plant and Equipment	(64,314)	(48,329)
Net cash used in investing activities	(179,568,348)	(159,759,931)
Cash flow from financing activities:		
Contribution received	133,353,013	118,326,507
General Deposit	(12,292)	16,723
Refunds to Members	(117,476,507)	(108,392,979)
Net cash generated from financing activities	15,864,214	9,950,251
Net increase in cash and cash equivalents	(1,053,605)	761,179
Cash and cash equivalents at the beginning of the year	4,385,242	3,691,577
Cash and cash equivalents at the end of the year-Before Adjustments	3,331,637	4,452,756
Adjustments:		
Cash balance at the end of the year -Labour Dept.	(57,694)	(67,514)
Cash and cash equivalents at the end of the year (Note A)	3,273,943	4,385,242
Note A		
Analysis of Cash and Cash equivalents as at 31 st December;		
Cash in Hand	20	4
Cash at Bank	3,273,923	3,941,838
Cash-in-Transit	-	443,400
	3,273,943	4,385,242



EMPLOYEES' PROVIDENT FUND
STATEMENT OF CHANGES IN EQUITY / MEMBERS' WEALTH

Description	Members Balance	Building Reserve Fund	Technology Advancement Reserve Fund	Profit Equalisation Reserve Fund	General Reserve Fund	Investment Revaluation Reserve	Retained Profit	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 31st December 2015								
Net change in fair value of available-for-sale financial assets	1,625,492,921	3,157,000	350,000	24,100,000	6,650,000	4,886,921	215,575	1,664,852,417
Net Profit for the year - 2016	-	-	-	-	-	(8,180,733)	-	(8,180,733)
Net Contributions for 2016	13,544,164	-	-	-	-	-	-	13,544,164
Member Interest Paid on Refunds - 2016	-	-	-	-	-	-	175,926,965	175,926,965
Member Interest payable (2016 at 10.50%)	-	-	-	-	-	-	(4,645,766)	(4,645,766)
Transfers to Profit Equalization Reserve	171,557,453	-	-	-	-	-	(171,557,453)	-
	-	-	-	(250,000)	-	-	250,000	-
Balance as at 31st December 2016	1,810,594,518	3,157,000	350,000	23,850,000	6,650,000	(3,293,812)	189,541	1,841,497,047
Net change in fair value of available-for-sale financial assets	-	-	-	-	-	7,535,758	-	7,535,758
Net Profit for the year - 2017	-	-	-	-	-	-	202,946,761	202,946,761
Net Contributions for 2017	18,944,115	-	-	-	-	-	-	18,944,115
Member Interest Paid on Refunds - 2017	-	-	-	-	-	-	(4,624,262)	(4,624,262)
Member Interest payable (2017 at 10.50%)	191,243,858	-	-	-	-	-	(191,243,858)	-
Transfers to Profit Equalization Reserve	-	-	-	7,000,000	-	-	(7,000,000)	-
Balance as at 31st December 2017	2,020,782,471	3,157,000	350,000	30,850,000	6,650,000	4,241,946	268,002	2,066,299,419



EMPLOYEES' PROVIDENT FUND NOTES TO THE FINANCIAL STATEMENTS

1. Corporate Information

1.1 Reporting Entity

The Employees' Provident Fund ("EPF" or "the Fund") is a mandatory defined contributory retirement scheme for the private and semi government sector employees in Sri Lanka established under the EPF Act No.15 of 1958. The Commissioner of Labour acts as the general administrator of the Fund while the Monetary Board of the Central Bank of Sri Lanka is entrusted with the powers, duties and responsibilities to act as the custodian of the Fund. The Employees Provident Fund Department of the Central Bank of Sri Lanka facilitates the Monetary Board in discharging its powers, duties and functions entrusted to it by the Act.

2. Basis of Accounting

2.1 Statement of Compliance

The financial statements of the Fund have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs & LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the EPF Act No. 15 of 1958.

In terms of the Section 5(1) (h) and (i) of EPF Act No.15 of 1958, the Monetary Board is required to maintain a general account in respect of the Fund and prepare the following financial statements annually.

- a. Statement of Income and Expenditure,
- b. Statement of Assets and Liabilities,
- c. Statement of Receipts and Payments, and
- d. Statement of Investments, showing the face value, purchase price and market value of each type of investment.

2.2 Responsibility for Financial Statements

The Monetary Board of Central Bank of Sri Lanka is responsible for the preparation and presentation of the Financial Statements of the Fund as per the provisions of the EPF Act No. 15 of 1958.



2.3 Approval of Financial Statements by the Monetary Board

The Financial Statements for the year ended 31st December 2017, were authorised for issue by the Board of Directors on 09th February 2018.

2.4 Basis of Preparation

The Financial Statements have been prepared on the historical cost basis, except for financial assets that have been measured at fair value as identified in specific accounting policies below.

2.5 Functional and Presentation Currency

The Financial Statements of the Fund are presented in Sri Lankan Rupees, which is the functional and presentation currency of the Fund.

2.6 Use of Materiality, Offsetting and Rounding

Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately unless they are immaterial.

Offsetting

Assets and liabilities and income and expenses in the Financial Statements are not set off unless required or permitted by Sri Lanka Accounting Standards.

Rounding

The amounts in the Financial Statements have been rounded off to the nearest Rupees thousands, except where otherwise indicated.

2.7 Use of Judgments, Estimates and Assumptions

In preparing these Financial Statements of the Fund, the Monetary Board has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, expenses and disclosure of contingent liabilities. Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence, actual experience and results may differ from these judgments and estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised prospectively.



The Management considered the following items, where significant judgments, estimates and assumptions have been used in preparing these Financial Statements.

Going concern

The Management has made an assessment of Fund's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Therefore, the Financial Statements of the Fund continued to be prepared on a going concern basis.

In addition to that specific accounting judgments, estimations and assumptions were used in following disclosures.

- Valuation of Financial Instruments
- The impairment of assets
- Depreciation of Property, Plant and Equipment
- Provision for liabilities

2.8 Events Occurring after the Reporting Period and Contingent Liabilities

All material events occurring after the Reporting Date has been considered when preparing the financial statements. Provisions and relevant disclosures have been made for all known liabilities.

3. Significant Accounting Policies

3.1 Recognition of Income and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and revenue can be reliably measured. Expenses are recognised in the Statement of Income and Expenditure on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in managing the Fund by both the EPF Department of the Central Bank and the EPF Section of the Department of Labour has been charged to the Fund as its expenditure.

3.1.1 Interest Income

Interest income is recognised in the Statement of Income and Expenditure for all interest bearing financial instruments on an accrual basis using the effective interest method based on actual purchase price less impairment losses. Interest income consists of coupon interest income and gain or loss on amortisation of discount or premium of the financial instruments. Amortisation gain or loss of long dated securities are separately disclosed in the income statement.



3.1.2 Dividends

Dividend income is recognised when the Fund's right to receive the payment is established. Dividend income is presented net of any non-recoverable Withholding Taxes (WHT).

3.1.3 Gain on Sale of Financial Investments Held for Trading

Gain on Sale of Financial Investments Held for Trading comprises realised trading gains on disposal of government securities, quoted shares and listed debentures, and are presented in direct income as sale of financial investments at fair value through profit or loss in the Statement of Income and Expenditure.

3.1.4 Gain on Disposal of Financial Investments Available for Sale

Gain on Disposal of Financial Investments Available for Sale comprises realised capital gain on disposal of investment in equity securities classified as available for sale, is presented in direct income as sale of financial investments available for sale in the Statement of Income and Expenditure.

3.1.5 Gain on Fair Valuation of Financial Investments Held for Trading

Fair Valuation changes on Financial Investments Held for Trading comprises unrealised gains on fair valuation (marked to market valuation) of government securities, quoted shares and listed debentures, are presented in profit or loss as gain on fair valuation of Financial Investments Held for Trading in the Statement of Income and Expenditure.

3.1.6 Personnel Expenses

Personnel expenses include all staff related expenses incurred by both the EPF Department of the Central Bank and the EPF Section of the Department of Labour. The Fund does not maintain separate pension fund or other post employee benefit plans.

3.1.7 Income Tax

The income tax is calculated to the extent of the tax payable on investment income and other income. Income tax liability of the Fund is 10% of the assessable income. There is no liability on capital gains earned on Treasury bills, Treasury bonds and shares, since they are exempted from tax as per the Inland Revenue Act.

Since EPF changed its accounting policy (w.e.f. 01.09.2006) to value the Treasury bonds and bills portfolio at after tax weighted average cost (WAC) and to amortise subsequently, the amortisation gain was recorded net of tax.



Accordingly, the proportion of WHT applicable for the income earned on Treasury bonds and bills for the year is added back to the amortisation gain account in order to give a fair view about the amortisation gain and the income tax expenditure.

3.2 Assets

3.2.1 Financial Instruments – Initial Recognition, classification and subsequent measurement

3.2.1.1 Date of Recognition

Financial assets are recognised when, and only when the Fund becomes a party to the contractual provision of a financial instrument.

3.2.1.2 Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose, characteristics and the Management's intention in acquiring them.

All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets and financial liabilities at fair value through profit or loss as per the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'. Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with the Statement of Income and Expenditure.

3.2.1.3 'Day 1' Profit or Loss

The Fund considers that the transaction price for the instrument, provides better evidence of the fair value of the instrument than its own estimate of fair value, unless it is evidenced as contradictory. If the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Fund recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Gain or Loss from unrealized price revaluations'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss when the inputs become observable, or when the instrument is derecognized.

3.2.1.4 Classification and Subsequent Measurement of Financial Assets

The Fund classifies financial assets into one of the following categories:

- (i) Financial assets at fair value through profit or loss

The category of financial assets and liabilities at FVTPL is sub-divided into:



- *Financial assets and liabilities held for trading:* financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling and/or repurchasing in the near term. This category includes equities, debentures and other interest-bearing investments. These assets are acquired principally for the purpose of generating a profit from short-term fluctuations in price.

Initial Measurement of Financial Instruments

- *Financial instruments designated as at FVTPL upon initial recognition:* These financial assets and liabilities are designated upon initial recognition on the basis that they are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Fund, as set out in the Fund's offering document.

FVTPL securities are subsequently valued at fair value as indicated by market values. Changes in market value are recognised as an increase or decrease in the value of the securities while resulting net gains and losses are recognised in the Statement of Income and Expenditure.

(ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Fund does not intend to sell immediately or in the near term. Securities purchased under agreement to re-sell (Reverse Repos), are classified as loans and receivables. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Gains and loss are recognised in the Statement of Income and Expenditure.

(iii) Held-to-Maturity Financial Assets (HTM)

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Fund has the positive intent and ability to hold to maturity, and which were not designated as at fair value through profit or loss or as available-for-sale.

HTM investments are subsequently measured at amortised cost using the effective interest rate method, less any impairment. Premium and discount arising on the purchase of HTM investments are included in the calculation of their effective interest rates. Gains and loss are recognised in the Statement of Income and Expenditure when HTM investments are derecognised or impaired.



A sale or reclassification of more than an insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Fund from classifying investment securities as held to maturity for the current and the following two financial years.

(iv) Available-for-Sale Financial Assets (AFS)

'Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise Government securities, equity securities and debt securities. AFS assets are continued to be measured at fair value in the Statement of Financial Position. Fair value changes in AFS assets are recognised under Other

Comprehensive Income and accumulated to members' wealth, through the Revaluation Reserve until AFS assets are either sold or become impaired. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Fund becomes entitled to the dividend. Impairment losses are recognised in profit or loss. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

3.2.1.5 Impairment of Financial Assets

At each reporting date, an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Objective evidence of impairment of securities may include specific information about the issuer such as a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial distress, but may also include information about significant changes in the market condition that provides evidence that the cost of the securities may not be recovered. A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.



3.2.1.6 De-recognition of Financial Assets

Financial assets are de-recognised when the contractual right to receive cash flows from the assets has expired; or when the Fund has transferred its contractual right to receive the cash flows of the financial assets, and either:

- Substantially all the risks and rewards of ownership have been transferred; or
- The Fund has neither retained nor transferred substantially all the risks and rewards, but has not retained control.

A financial liability is derecognised when the obligation under the liability is discharged, canceled or expires.

3.2.1.7 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.2.2 Property, Plant and Equipment (PPE)

Recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Fund and cost of the asset can be measured reliably.

Measurement

All property, plant and equipment are initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (as explained under 'subsequent costs'). Purchased software which is integral to the functionality of the related equipment is capitalised as part of that equipment.

Cost model

Property, plant and equipment, is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. When an asset's carrying value is higher than its estimated recoverable amount, the carrying value is written down to its recoverable amount (Please refer Note 3.2.6 - Impairment of non-financial assets).

Subsequent costs

When significant parts of a property, plant and equipment are required to be replaced at regular intervals, the Fund derecognises the replaced part, and recognises the new part with



its own associated useful life and depreciates accordingly. Ongoing repair and maintenance costs are charged to profit or loss as incurred.

Derecognition

An item of property, plant and equipment is derecognised upon disposal, replacement or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is included in Profit or Loss in the period the asset is derecognised.

Depreciation

Depreciation is based on straight-line method over the estimated useful lives of the asset. Depreciation of an asset begins from the date it is available for use or in respect of self-constructed assets from the date that the asset is completed and ready for use. Depreciation ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

The estimated rates of depreciation of assets are follows;

Asset Class	Rate of Depreciation
Buildings	02%
Plant and Machinery	25%
Office Equipment	25%
Furniture & Fittings	10%
Motor Vehicles	20%
Computer Equipment	25%
(50% for the assets acquired before 31 st December 2016)	
Other	20%

Residual values, useful lives and method of depreciation are reviewed at each financial year end and adjusted if appropriate.

3.2.3 Intangible Assets

Computer software not integral to computer hardware are shown as intangible assets and recognised at cost. Subsequent to the initial recognition, they are carried at cost less any accumulated amortisation based on useful life of three years (two years for the software acquired before 31st December 2016).



3.2.4 Inventories

Inventories are carried at weighted average cost. Allowance is made for slow moving inventories.

3.2.5 Receivables

Receivables are carried at expected realisable value after making provision for impairment. All receivables are assessed for specific impairment by considering objective evidences.

3.2.6 Impairment of Non- Financial Assets

The Fund assesses at the end of each financial period if events or changes in circumstances indicate that there is an indication that a non- financial asset may be impaired. If such indication exists, the Fund makes an estimated recoverable amount of the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and written down to its recoverable amount.

3.3 *Liabilities*

3.3.1 Unclaimed Benefits

EPF benefits which are duly refunded to the members or the beneficiaries, but returned for various reasons as well as the Retained Benefit over one year are credited to the Unclaimed Benefits Account until they are re-claimed.

3.3.2 Retained Benefits

EPF benefits, retained on the instructions of the Commissioner of Labour are shown as Retained Benefits until instructions are received to release them. Such benefits are not retained for more than one accounting period in this account and transfer to unclaimed benefit Account.

3.3.3 Under Payments & Over Payments (Refunds)

The balance shown in the Under Payments & Over Payments (Refunds) Account represents payment of benefits to be made as part payments.

3.3.4 Under Payments & Over Payments (Contribution)

The balance shown in the Under Payments & Over Payments (Contribution) Account represents receipts of contribution.



3.3.5 Provisions

Provisions are recognised when the Fund has an obligation at present (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate can be made of the amount of the obligation.

3.3.6 De-recognition of Liabilities

Liabilities are de-recognised when they are extinguished, that is when the obligation is discharged, canceled, or expires.

3.4 *Income Statement*

EPF prepares its Income Statement using two separate statements i.e. Statement of Income & Expenditure and Statement of Comprehensive Income to show comprehensive income and other comprehensive income.

3.5 *Statement of Cash Flows*

The Statement of Cash Flows has been prepared using the “direct method” of preparing cash flows in accordance with the Sri Lanka Accounting Standard “LKAS 07– Statement of Cash Flows”. Cash and cash equivalents comprise short term, highly- liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value.

3.6 *Receipts and Payments Account*

Statement of Receipts and Payments represents all receipts received in the form of cash during the year and payments made in cash during the year

3.7 *Comparative Information*

The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

4. *New Standards issued but not yet effective as at Reporting Date*

A number of new standards and amendments to standards, which have been issued but not yet effective as at the Reporting date, have not been applied in preparing these Financial Statements. Accordingly, the following Accounting Standards have not been applied in



preparing these Financial Statements and the Fund plans to apply these standards on the respective effective dates.

The following standard is expected to have a material impact on the Fund's financial statements in the period of initial application.

4.1 SLFRS 09 “Financial Instruments”

Summary of Requirements

The Fund is required to adopt SLFRS 09: Financial Instruments from 1 January 2018. SLFRS 09 Financial Instruments sets out requirements for recognizing and measuring financial assets and financial liabilities. This standard replaces LKAS 39 Financial Instruments: Recognition and Measurement.

Possible impact on Financial Statements

Classification – Financial Assets

SLFRS 09 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

SLFRS 09 contains 03 principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. Accordingly, the existing financial instruments categories of FVTPL, Available for Sale, Held to Maturity and Loans and Receivables will be reclassified in accordance with SLFRS 09 with effect from 01 January 2018.

Impairment – Financial Assets

IFRS 09 replaces the ‘incurred loss’ model in LKAS 39 with a forward looking ‘expected credit loss’ model. This will require considerable judgement about how changes in economic factors affect ECL's, which will be determined on a probability – weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments.

Under SLFRS 09, loss allowance will be measured on either of the following bases:

- 12 - month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and



- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12 – month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

The Fund is assessing the potential impact on its Financial Statements resulting from the application of above provisions in SLFRS 09 and make necessary adjustment to the 2018 Financial Statements.



EMPLOYEES' PROVIDENT FUND

Notes to the Financial Statements

5. Interest Income

For the year ended 31 st December	2017			2016
	Monetary Board Rs.'000	Labour Dept. Rs.'000	Total Rs.'000	Total Rs.'000
Interest on Treasury Bonds	175,651,042	-	175,651,042	161,254,869
Interest on Treasury Bills	4,622,562	-	4,622,562	443,163
Interest on Corporate Debt Securities - Listed	3,135,110	-	3,135,110	2,157,178
Interest on Corporate Debt Securities - Unlisted	672,494	-	672,494	601,194
Interest on Trust Certificates	338,669	-	338,669	290,568
Interest on Reverse Repos	332,128	-	332,128	738,445
Interest on Fixed Deposits	3,594,047	-	3,594,047	-
	188,346,052	-	188,346,052	165,485,417

6. Dividend Income

For the year ended 31 st December	2017			2016
	Monetary Board Rs.'000	Labour Dept. Rs.'000	Total Rs.'000	Total Rs.'000
Dividend from Equity Securities - Quoted	2,858,597	-	2,858,597	2,103,787
Dividend from Equity Securities - Unquoted	4,894	-	4,894	2,028,722
Dividend from Unlisted Preference Shares	130,100	-	130,100	130,100
	2,993,591	-	2,993,591	4,262,609

7. Realised Capital Gain/ (Loss) on Financial Assets

For the year ended 31 st December	2017			2016
	Monetary Board Rs.'000	Labour Dept. Rs.'000	Total Rs.'000	Total Rs.'000
Gain on dealing of T Bonds - AFS	-	-	-	13,811
Gain on dealing of T Bonds - HTM	-	-	-	598,028
Loss on dealing of Shares - FVTP	-	-	-	(9,248)
Gain on dealing of Shares - AFS	5	-	5	461,374
	5	-	5	1,063,965

8. Amortisation Gain on Held to Maturity Financial Assets

For the year ended 31 st December	2017			2016
	Monetary Board Rs.'000	Labour Dept. Rs.'000	Total Rs.'000	Total Rs.'000
Investments in Treasury Bonds	31,289,320	-	31,289,320	28,170,934
Quoted Debt Securities-Listed	(41)	-	(41)	(41)
	31,289,279	-	31,289,279	28,170,893



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9. Net Gain/(Loss) on Financial Instruments at Fair Value Through Profit or Loss

<i>For the year ended 31st December</i>	2017			2016
	Monetary Board Rs.'000	Labour Dept. Rs.'000	Total Rs.'000	Total Rs.'000
Quoted Equity Securities	(163,352)	-	(163,352)	(257,733)
Government Securities - Treasury Bonds	1,640,202	-	1,640,202	(584,381)
	1,476,850	-	1,476,850	(842,114)

10. Impairment of Financial Assets

<i>For the year ended 31st December</i>	2017 Rs.'000	2016 Rs.'000
Quoted Equity Securities		
Ceylon Grain Elevators PLC	136,439	-
Browns & Co PLC	203,967	-
Galadari Hotels (Lanka) PLC	59,280	-
Mackwoods Energy PLC	4,000	-
Taj Lanka Hotels PLC	224,476	-
Ceylon Guardian Investment PLC	282,448	-
Ceylon Hotel Corporation PLC	377,693	-
Hayleys Fabrics PLC	8,311	130,481
Bukith Darah PLC	198,369	1,508,810
The Finance Company PLC	7,128	33,602
Colombo Dockyard PLC	-	1,868,729
Raigam Wayamba Salterns PLC	-	64,375
Carson Cumberbatch PLC	-	1,625,639
	1,502,111	5,231,637

11. Other Income

<i>For the year ended 31st December</i>	2017			2016
	Monetary Board Rs.'000	Labour Dept. Rs.'000	Total Rs.'000	Total Rs.'000
Surcharges	576,689	-	576,689	156,361
Fee Income	40	-	40	-
Other Income	1,178	10,911	12,089	5,902
	577,907	10,911	588,818	162,263



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12. Operating Expenses

<i>For the year ended 31st December</i>	2017			2016
	Monetary Board Rs.'000	Labour Dept. Rs.'000	Total Rs.'000	Total Rs.'000
Personnel Expenses	459,475	387,855	847,330	861,149
Administration Expenses	296,387	157,661	454,048	402,786
Other Expenses	37,027	10,267	47,294	223,305
	792,889	555,783	1,348,672	1,487,240

13. Tax Expense

<i>For the year ended 31st December</i>	2017 Rs.'000	2016 Rs.'000
Amortized WHT on T bonds	18,540,943	15,319,213
Income Tax	550,121	337,978
Over provision in respect of Y/A 2016/17	(194,013)	-
	18,897,051	15,657,191

Current tax has been computed in accordance with the provisions of Inland Revenue Act No. 10 of 2006 and amendments thereto.

The Fund is liable to income tax at 10%.

14. Net Gain/ (Loss) on Changes in Fair Value of Available-for-Sale Financial Assets

<i>For the year ended 31st December</i>	2017			2016
	Monetary Board Rs.'000	Labour Dept. Rs.'000	Total Rs.'000	Total Rs.'000
Gain/ (Loss) on Listed Equity	119,638	-	119,638	(3,364,340)
Gain/ (Loss) on T Bonds	6,370,376	-	6,370,376	(5,089,100)
Gain/ (Loss) on T Bills	(354,277)	-	(354,277)	391,116
Loss on Debentures	(102,090)	-	(102,090)	(118,409)
	6,033,647	-	6,033,647	(8,180,733)



EMPLOYEES' PROVIDENT FUND

Notes to the Financial Statements

15 Property, Plant and Equipment

15.1 Total - 2017

	Computer Equipment Rs.'000	Furniture and Fittings Rs.'000	Office Equipment Rs.'000	Motor Vehicles Rs.'000	Other Rs.'000	Total Rs.'000
Cost						
As at 01 st January 2017	496,506	95,853	383,713	100,396	6,315	1,082,783
Additions during the year	40,574	3,321	13,474	3,172	91	60,632
Disposals During the year	-	-	-	-	-	-
As at 31st December 2017	537,080	99,174	397,187	103,568	6,406	1,143,415
Accumulated Depreciation						
As at 01 st January 2017	449,452	62,947	232,444	58,491	2,774	806,108
Charge for the year	8,239	8,573	19,315	1,804	704	38,635
Disposals During the year	-	-	-	-	-	-
As at 31st December 2017	457,691	71,520	251,759	60,295	3,478	844,743
Net Book Value						
As at 31st December 2017	79,389	27,654	145,428	43,273	2,928	298,672
As at 31st December 2016	47,054	32,906	151,269	41,905	3,541	276,675

Total - 2016

	Computer Equipment Rs.'000	Furniture and Fittings Rs.'000	Office Equipment Rs.'000	Motor Vehicles Rs.'000	Other Rs.'000	Total Rs.'000
Cost						
As at 01 st January 2016	497,431	91,388	351,196	100,396	3,551	1,043,962
Additions during the year	4,378	4,465	27,214	-	2,764	38,821
Disposals During the year	-	-	-	-	-	-
Transfers/ Adjustments	(5,303)	-	5,303	-	-	-
As at 31st December 2016	496,506	95,853	383,713	100,396	6,315	1,082,783
Accumulated Depreciation						
As at 01 st January 2016	439,791	54,695	216,117	56,870	2,541	770,014
Charge for the year	13,802	8,252	12,186	1,621	233	36,094
Disposals During the year	-	-	-	-	-	-
Transfers/ Adjustments	(4,141)	-	4,141	-	-	-
As at 31st December 2016	449,452	62,947	232,444	58,491	2,774	806,108
Net Book Value						
As at 31st December 2016	47,054	32,906	151,269	41,905	3,541	276,675
As at 31st December 2015	57,640	36,693	135,079	43,526	1,010	273,948





EMPLOYEES' PROVIDENT FUND

Notes to the Financial Statements

16. Intangible Assets

Computer Software	2017 Rs.'000	2016 Rs.'000
Cost		
As at 01 st January	33,561	32,796
Acquisitions during the Year	305	765
As 31st December	33,866	33,561
Amortisation		
As at 01 st January	32,300	31,932
Amortisation during the period	429	368
As 31st December	32,729	32,300
Net book value		
As at 01 st January	1,261	864
As 31st December	1,137	1,261

17. Financial Assets - Fair Value Through Profit or Loss

As at 31 st December	2017			2016		
Financial assets held for trading	Face Value Rs.'000	Cost Rs.'000	Fair Value Rs.'000	Face Value Rs.'000	Cost Rs.'000	Fair Value Rs.'000
Investments in equity securities						
Quoted Equity Securities (Note 17.1)	-	2,982,561	2,451,743	-	2,982,561	2,615,095
	-	2,982,561	2,451,743	-	2,982,561	2,615,095
Investments in Government Securities						
Treasury Bonds (Note 17.2)	12,545,000	12,233,851	13,133,108	12,545,000	12,233,851	11,492,906
	12,545,000	12,233,851	13,133,108	12,545,000	12,233,851	11,492,906
Investments in debt securities						
Corporate Debentures (Note 17.3)	114,500	114,500	114,500	114,500	114,500	114,500
	114,500	114,500	114,500	114,500	114,500	114,500
Total financial assets Held for Trading	12,659,500	15,330,912	15,699,351	12,659,500	15,330,912	14,222,501
Financial assets designated at FVTPL	-	-	-	-	-	-
Total Financial assets at FVTPL	12,659,500	15,330,912	15,699,351	12,659,500	15,330,912	14,222,501



EMPLOYEES' PROVIDENT FUND Notes to the Financial Statements

17.1 Investments in equity securities - Quoted

<i>As at 31st December</i>	2017		2016	
Company Name	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000
Access Engineering PLC	102,915	110,330	102,915	116,433
ACL Cables PLC	22,978	17,264	22,978	24,634
ACL Plastics PLC	19,893	18,368	19,893	33,674
Aitken Spence PLC	280,028	173,129	280,028	206,106
Aitken Spence Hotel Holdings PLC	164,977	83,735	164,977	122,338
Asian Hotels & Properties PLC	96,297	100,719	96,297	108,731
Balangoda Plantations PLC	40,338	40,803	40,338	16,483
Bogawantalawa Tea Estates PLC	1,463	1,389	1,463	793
Brown & Company PLC	25,399	17,558	25,399	24,855
Browns Capital PLC	524	336	524	115
Browns Investment PLC - Voting	3,690	5,415	3,690	2,916
Bukith Darah PLC	2,614	766	2,614	1,019
C W Mackie PLC	12,644	6,428	12,644	7,644
Cargills (Ceylon) PLC	2,274	2,889	2,274	2,809
Carson Cumberbatch PLC	13,160	5,356	13,160	5,288
Central Finance Company PLC	74,401	59,854	74,401	64,847
Ceylon Guardian Investment Trust PLC	40,108	19,477	40,108	24,174
Ceylon Hospitals PLC - Voting	106,534	89,390	106,534	94,128
Ceylon Tea Services PLC	23,494	17,724	23,494	19,673
Ceylon Theatres PLC	6,507	8,184	6,507	5,693
Chemanex PLC	1,454	1,199	1,454	1,588
CIC Holdings PLC - Non Voting	29,552	16,179	29,552	23,211
CIC Holdings PLC - Voting	119,043	69,124	119,043	101,902
Dialog Axiata PLC	505	625	505	505
Diesel & Motor Engineering PLC	88,707	61,388	88,707	72,789
Dipped Products PLC	65,128	49,544	65,128	50,593
Expolanka Holdings PLC - Voting	8,421	5,122	8,421	6,089
Hayleys PLC	214,119	172,987	214,119	193,803
John Keells Holdings PLC	726,143	729,397	726,143	712,206
Kegalle Plantations PLC	24,734	8,561	24,734	5,932
Kelani Tyres PLC	1,021	613	1,021	896
Lanka IOC PLC	139	124	139	141
Lankem Ceylon PLC	4,349	1,200	4,349	1,800
Mackwoods Energy PLC	15,760	4,576	15,760	6,863
Malwatte Valley Plantations PLC	8,783	8,712	8,783	2,297
Malwatte Valley Plantations PLC - Non Voting	3,101	3,356	3,101	969
Palm Garden Hotel PLC	54,109	7,010	54,109	7,601
People's Leasing & Finance PLC	266,478	251,205	266,478	254,160
Raigam Wayamba Salterns PLC	32,991	22,767	32,991	19,798
Royal Ceremics Lanka PLC	150,233	157,542	150,233	158,918
Seylan Developments PLC	1,416	1,360	1,416	1,440
Sri Lanka Telecom PLC	39,003	33,049	39,003	41,746
Taj Lanka Hotels PLC	2,896	1,692	2,896	2,681
Tangerine Beach Hotels PLC	2,338	1,976	2,338	2,276
Tea Smallholder Factories PLC	440	320	440	192
Tokyo Cement Company(Lanka) PLC - Non-Voting	6,138	11,310	6,138	8,227
Vallibel One PLC	75,322	51,691	75,322	54,319
	2,982,561	2,451,743	2,982,561	2,615,095

Values of the investments in equity securities - quoted : are based on the volume weighted average prices as at 31st December, published by the Colombo Stock Exchange.



EMPLOYEES' PROVIDENT FUND Notes to the Financial Statements

17.2 Treasury Bonds

<i>As at 31st December</i>	Year of Maturity	2017			2016		
Securities		Face Value	Purchase Cost	Market Value	Face Value	Purchase Cost	Market Value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Government of Sri Lanka Treasury Bonds	2018	500,000	462,418	496,128	500,000	462,418	471,776
	2020	500,000	460,526	497,129	500,000	460,526	464,199
	2022	1,000,000	912,332	1,002,731	1,000,000	912,332	909,385
	2024	1,745,000	1,795,866	1,850,766	1,745,000	1,795,866	1,665,763
	2026	3,000,000	2,707,869	3,150,384	3,000,000	2,707,869	2,760,027
	2028	3,250,000	3,133,630	3,377,117	3,250,000	3,133,630	2,891,210
	2029	350,000	398,411	410,606	350,000	398,411	352,367
	2030	350,000	394,105	364,510	350,000	394,105	310,918
	2035	1,850,000	1,968,694	1,983,737	1,850,000	1,968,694	1,667,261
		12,545,000	12,233,851	13,133,108	12,545,000	12,233,851	11,492,906

The fair values of the Government Securities are based on the average quotes published as at 31st December by the Central Bank of Sri Lanka

17.3 Corporate Debentures

<i>As at 31st December</i>	Year of Maturity	2017			2016		
Company		Face Value	Purchase Cost	Market Value	Face Value	Purchase Cost	Market Value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Nawaloka Hospitals PLC	2018	114,500	114,500	114,500	114,500	114,500	114,500
		114,500	114,500	114,500	114,500	114,500	114,500

The fair values of the Corporate Debentures - listed : are based on the average prices as at 31st December, published by the Colombo Stock Exchange.

18 Financial Assets - Available for Sale

<i>As at 31st December</i>	2017			2016		
	Face Value	Purchase Cost	Market Value	Face Value	Purchase Cost	Market Value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Investments in equity securities						
Quoted (Note 18.1.1)	-	75,687,840	71,590,364	-	72,181,800	67,964,684
Unquoted (Note 18.1.2)	-	10,770,625	10,270,625	-	10,770,625	10,270,625
	-	86,458,465	81,860,989	-	82,952,425	78,235,309
Investments in Government Securities						
Treasury Bonds (Note 18.2.1)	47,074,818	49,887,914	49,005,109	47,124,818	49,933,888	42,680,707
Treasury Bills (Note 18.2.2)	5,550,000	5,014,547	5,416,614	41,056,824	37,980,948	38,815,227
	52,624,818	54,902,461	54,421,723	88,181,642	87,914,836	81,495,934
Investments in debt securities						
Corporate Debenture (Note 18.3.1)	-	2,771,515	2,665,074	-	2,825,530	2,821,179
	-	2,771,515	2,665,074	-	2,825,530	2,821,179
Total investments in AFS Financial Assets	52,624,818	144,132,441	138,947,786	88,181,642	173,692,791	162,552,422



EMPLOYEES' PROVIDENT FUND

Notes to the Financial Statements

18.1 Investments in equity securities

18.1.1 Quoted Equity Securities

<i>As at 31st December</i>	2017		2016	
Company Name	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000
ACL Cables PLC	132,536	233,211	132,536	332,766
Access Engineering PLC	345,820	370,910	345,820	391,428
Aitken Spence PLC	1,717,108	951,139	1,717,108	1,132,308
Aitken Spence Hotel Holdings PLC	1,545,230	845,563	1,545,230	1,235,381
Amaya Leisure PLC	340,028	256,007	340,028	326,871
Asian Hotels & Properties PLC	3,177,485	2,288,470	3,177,485	2,470,507
Asiri Surgical Hospital PLC	1,681	2,496	1,681	2,568
Bairaha Farms PLC_ Voting Shares	5,274	5,227	5,274	6,440
Browns & Company PLC	1,774,160	469,923	1,774,160	559,908
Bukith Darah PLC	2,307,996	600,816	2,307,996	799,185
CIC Holdings PLC - Non Voting	192,174	115,518	192,174	165,722
CIC Holdings PLC Voting	575,257	340,353	575,257	501,746
Cargills (Ceylon) PLC	1,369,726	1,467,659	1,369,726	1,427,278
Carson Cumberbatch PLC	2,594,080	980,700	2,594,080	968,441
Central Finance Company PLC	2,571,171	2,088,938	2,571,171	2,263,205
Pyramal Glass Ceylon PLC	541,434	523,839	541,434	478,681
Ceylon Grain Elevators PLC	1,005,585	353,671	1,005,585	443,560
Ceylon Guardian Investment PLC	515,379	232,932	515,379	289,109
Ceylon Hospitals PLC (NV)	25,411	75,380	25,411	80,229
Ceylon Hotels Corporation PLC	711,243	333,550	711,243	416,932
Ceylon Tea Services PLC	1,059,144	850,049	1,059,144	943,555
Ceylon Theatres PLC	1,080,051	1,249,686	1,080,051	869,226
Chevron Lubricant Lanka PLC	49,564	120,894	49,564	159,600
Colombo Dockyard PLC	2,791,809	1,039,345	2,791,809	923,079
Commercial Bank of Ceylon PLC	9,067,069	12,213,035	7,992,963	11,707,464
DFCC Bank PLC	3,395,968	2,992,513	3,395,968	2,985,202
Diesel & Motor Engineering PLC	1,536,983	803,589	1,536,983	952,827
Dialog Axiata PLC	1,742,038	2,349,608	1,742,038	1,897,760
Dipped Products PLC	801,551	599,625	801,551	612,323
Galadari Hotels (Lanka) PLC	810,322	189,698	810,322	253,721
Hatton National bank PLC	6,470,836	9,526,634	5,166,481	7,279,368
Haycarb PLC	238,460	209,091	238,460	212,635
Hayleys PLC	882,453	737,178	882,453	825,884
Hayleys Fabrics PLC	213,592	74,800	213,592	83,111
John Keells Holdings PLC	871,807	779,262	871,807	759,630
John Keells Hotels PLC	1,166,289	690,575	1,166,289	855,372
Kelani Tyres PLC	97,614	68,376	97,614	99,946
Lanka IOC PLC	76,299	65,580	76,299	74,245
Lanka Orix Leasing Company PLC	1,611,013	1,747,478	1,611,013	1,100,714
Lanka Tiles PLC	406,130	571,356	406,130	476,461
Laugfs Gas PLC - Non Voting	706,344	360,826	706,344	593,559



EMPLOYEES' PROVIDENT FUND

Notes to the Financial Statements

18.1.1 Quoted Equity Securities (Contd...)

<i>As at 31st December</i>	2017		2016	
Company Name	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000
Laugfs Gas PLC - Voting	2,684,120	1,360,598	2,684,120	1,927,997
Lighthouse Hotel PLC	309,422	206,951	309,422	270,003
Mackwoods Energy PLC	19,999	3,143	19,999	4,143
National Development Bank PLC	1,523,238	2,267,088	1,429,995	2,497,599
Nations Trust Bank PLC	8,080	9,469	8,080	9,821
Nawaloka Hospitals PLC	21,565	28,457	21,565	27,839
Nestle Lanka PLC	21,687	162,600	21,687	200,190
People's Leasing & Finance PLC	1,237,421	1,206,526	1,237,421	1,220,720
Raigam Wayamba Salterns PLC	120,691	64,763	120,691	56,316
Richard Pieris & Company PLC	1,647,208	2,208,694	1,647,208	1,359,196
Royal Ceremics Lanka PLC	1,483,645	1,591,788	1,483,645	1,605,690
Sampath Bank PLC	3,574,785	6,838,913	2,593,828	4,595,958
Seylan Bank PLC - Non Voting	339,635	522,258	321,383	531,796
Seylan Bank PLC	1,154,033	1,543,915	1,118,906	1,561,230
Sierra Cables PLC	33	22	33	29
Softlogic Holdings PLC	133,137	90,381	133,137	93,997
Sri Lanka Telecom PLC	818,616	688,688	818,616	869,922
Taj Lanka Hotels PLC	341,046	116,570	341,046	184,535
Tangerine Beach Hotels PLC	145,320	82,757	145,320	95,330
The Finance Company PLC	205,490	26,474	205,490	33,602
The Kingsbury PLC	555,502	345,059	555,502	388,511
Tokyo Cement Company (Lanka) PLC -NV	128,512	321,658	128,512	233,974
Trans Asia Hotels PLC	263,155	382,362	263,155	403,843
Vallibel One PLC	2,427,386	1,745,730	2,427,386	1,834,496
	75,687,840	71,590,364	72,181,800	67,964,684

The fair values of the investments in quoted equity securities are based on the volume weighted average prices as at 31st December, published by the Colombo Stock Exchange.

18.1.2 Unquoted Equity Securities

<i>As at 31st December</i>	2017		2016	
Company Name	Cost Rs.'000	Book Value Rs.'000	Cost Rs.'000	Book Value Rs.'000
Canwill Holdings (Pvt) Ltd.	5,000,000	5,000,000	5,000,000	5,000,000
Cargills Bank Limited	495,000	495,000	495,000	495,000
Fitch Ratings Lanka Limited	625	625	625	625
Jetwing Symphony Limited	390,000	390,000	390,000	390,000
Sri Lankan Airlines	500,000	0.1	500,000	0.1
Sri Lankan Catering Limited	1,005,000	1,005,000	1,005,000	1,005,000
Weligama Hotel Properties (Pvt) Ltd	405,000	405,000	405,000	405,000
West Coast Power (Pvt) Ltd	2,975,000	2,975,000	2,975,000	2,975,000
	10,770,625	10,270,625	10,770,625	10,270,625

Investments in unquoted equity securities are carried at their cost less impairment if any, as information are not available to reliably estimate the market value of these investments.



EMPLOYEES' PROVIDENT FUND

Notes to the Financial Statements

18.2 Investments in Government Securities

18.2.1 Treasury Bonds

As at 31 st December	Year of Maturity	2017			2016		
		Face Value	Purchase Cost	Market Value	Face Value	Purchase Cost	Market Value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Government of Sri Lanka Treasury Bonds	2017	-	-	-	50,000	45,974	49,547
	2018	1,700,000	1,487,288	1,688,142	1,700,000	1,487,288	1,607,675
	2020	76,000	63,837	70,083	76,000	63,837	63,425
	2021	1,605,000	1,700,640	1,632,946	1,605,000	1,700,640	1,510,529
	2022	2,125,000	2,454,386	2,222,162	2,125,000	2,454,386	2,035,452
	2023	1,650,000	1,681,093	1,652,214	1,650,000	1,681,093	1,477,231
	2024	2,650,000	3,107,342	2,810,619	2,650,000	3,107,342	2,529,669
	2025	14,600,000	15,527,580	14,777,706	14,600,000	15,527,580	13,023,101
	2026	403,818	401,763	401,453	403,818	401,763	347,648
	2028	2,100,000	2,366,429	2,263,995	2,100,000	2,366,429	1,944,995
	2029	193,000	248,028	226,362	193,000	248,028	195,319
	2030	4,750,000	4,905,821	4,946,916	4,750,000	4,905,821	4,219,601
	2032	779,000	544,616	643,529	779,000	544,616	524,000
	2035	11,723,000	12,217,288	12,570,456	11,723,000	12,217,288	10,565,025
	2045	2,720,000	3,181,803	3,098,526	2,720,000	3,181,803	2,587,490
		47,074,818	49,887,914	49,005,109	47,124,818	49,933,888	42,680,707

18.2.2 Treasury Bills

As at 31 st December	Year of Maturity	2017			2016		
		Face Value	Purchase Cost	Market Value	Face Value	Purchase Cost	Market Value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Government of Sri Lanka Treasury Bills	2018	5,550,000	5,014,547	5,416,614	-	-	-
	2017	-	-	-	41,056,824	37,980,948	38,815,227
		5,550,000	5,014,547	5,416,614	41,056,824	37,980,948	38,815,227



EMPLOYEES' PROVIDENT FUND

Notes to the Financial Statements

18.3 Investments in debt securities

18.3.1 Corporate Debentures

As at 31 st December	Year of Maturity	2017		2016	
		Purchase Cost Rs.'000	Market Value Rs.'000	Purchase Cost Rs.'000	Market Value Rs.'000
Richard Pieris and Company PLC 2017_10.75% P.A	2017	-	-	35,680	36,058
Central Finance Company PLC_2013-2017_13.25%p.a	2017	-	-	18,335	18,335
Richard Pieris and Company PLC 2018_11.00% p.a	2018	81,390	81,390	81,390	81,390
LB Finance PLC_2013-2018_14.5% p.a	2018	220,670	222,877	220,670	222,877
Sampath Bank Debenture_Fixed 13.0%p.a	2018	251,775	246,740	251,775	264,993
Sampath Bank Debenture_Fixed 13.4%p.a	2018	170,095	170,945	170,095	167,544
Central Finance Company PLC_2013-2018_13.50%p.a	2018	15,255	15,026	15,255	16,285
Central Finance Company PLC_2013-2018_13.95%p.a	2018	23,950	26,618	23,950	26,618
Nations Trust Bank PLC_2013-2018_13.00%p.a	2018	549,150	550,248	549,150	613,730
Richard Pieris and Company PLC 2019_11.25% p.a	2019	100,000	97,000	100,000	99,120
Pan Asia Banking Corporation PLC_9.75% pa	2019	250,000	250,000	250,000	250,000
Pan Asia Banking Corporation PLC_9.5233% pa	2019	209,230	209,230	209,230	209,230
HNB Debenture _ 7.75% p.a	2019	500,000	425,000	500,000	445,000
Sampath Bank Debenture_ 8.10% p.a	2019	200,000	170,000	200,000	170,000
Seylan Bank Debenture_8.60%pa 2014/2020	2020	200,000	200,000	200,000	200,000
		2,771,515	2,665,074	2,825,530	2,821,179



EMPLOYEES' PROVIDENT FUND
Notes to the Financial Statements

19. Held to Maturity Financial Assets

As at 31 st December	2017				2016			
	Face Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Amortised Cost Rs.'000	Face Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Amortised Cost Rs.'000
Investments in Government Securities								
Treasury Bonds (Note 19.1.1)	1,796,045,448	1,630,710,485	1,789,651,651	1,686,647,189	1,677,549,372	1,507,165,914	1,444,314,782	1,557,455,544
Treasury Bills (Note 19.1.2)	68,925,428	63,281,206	64,415,995	64,367,082	-	-	-	-
	1,864,970,876	1,693,991,691	1,854,067,646	1,751,014,271	1,677,549,372	1,507,165,914	1,444,314,782	1,557,455,544
Investments in debt securities								
Quoted (Note 19.2.1)	24,983,190	24,983,393	23,929,702	24,983,268	25,422,053	25,422,257	25,141,135	25,422,173
Unquoted (Note 19.2.2)	10,981,507	10,981,507	10,981,507	10,981,507	5,981,507	5,981,507	5,981,507	5,981,507
	35,964,697	35,964,900	34,911,209	35,964,775	31,403,560	31,403,764	31,122,642	31,403,680
Investments in Trust Certificates (19.3)	3,046,772	2,225,489	2,746,076	2,746,076	4,499,810	3,597,594	3,832,592	3,832,592
	3,046,772	2,225,489	2,746,076	2,746,076	4,499,810	3,597,594	3,832,592	3,832,592
Total investments in HTM Assets	1,903,982,345	1,732,182,080	1,891,724,930	1,789,725,122	1,713,452,742	1,541,967,272	1,479,270,016	1,592,691,816

EMPLOYEES' PROVIDENT FUND
Notes to the Financial Statements

Held to Maturity Financial Investments (Contd...)

19.1 Investment in Government Securities

19.1.1 Treasury Bonds

As at 31 st December	Year of Maturity	2017				2016			
		Face Value	Purchase Cost	Market Value	Amortised Cost	Face Value	Purchase Cost	Market Value	Amortised Cost
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Government of Sri Lanka Treasury Bonds	2017	-	-	-	-	57,942,920	50,845,644	57,418,821	57,472,636
	2018	109,228,700	93,658,471	108,943,380	107,979,875	109,228,700	93,658,471	105,040,146	105,069,856
	2019	87,775,141	81,541,990	86,855,204	86,116,867	84,184,400	77,923,760	78,695,022	81,557,005
	2020	98,545,167	81,419,386	93,008,966	91,568,590	94,545,167	77,476,606	81,232,142	85,400,576
	2021	54,785,000	53,042,015	56,090,592	53,661,220	59,285,000	37,775,777	36,910,734	38,135,918
	2022	98,137,710	85,822,453	95,276,672	91,470,538	86,387,710	73,801,662	74,895,074	78,196,715
	2023	129,453,886	118,523,914	123,083,893	122,959,130	111,739,600	100,509,485	91,749,090	104,118,441
	2024	68,289,296	66,587,084	71,644,986	66,454,416	30,589,296	31,135,690	28,874,000	30,880,697
	2025	111,849,917	112,323,378	114,310,889	112,285,481	82,074,186	82,805,307	73,671,205	82,814,323
	2026	194,361,030	147,799,767	175,332,944	157,276,723	163,361,030	118,044,708	120,759,695	125,174,612
	2027	25,408,238	26,803,222	27,830,609	26,778,445	-	-	-	-
	2028	197,455,680	159,719,821	184,454,382	165,397,579	197,455,680	159,719,821	155,652,625	163,927,354
	2029	85,860,233	102,712,512	100,724,130	100,579,002	85,860,233	102,712,512	86,506,420	101,277,045
	2030	48,450,000	49,119,927	50,458,543	49,057,253	48,450,000	49,119,927	43,039,928	49,082,311
	2032	95,263,350	61,148,043	80,910,115	63,864,223	95,263,350	61,148,043	65,988,178	63,189,359
	2033	139,084,560	113,338,701	130,322,888	115,171,963	139,084,560	113,338,701	106,710,643	114,687,416
	2034	75,158,330	89,874,726	90,881,979	88,933,570	75,158,330	89,874,726	75,510,823	89,254,118
	2035	39,250,000	42,550,835	42,087,383	42,421,069	39,250,000	42,550,835	35,372,964	42,487,760
	2041	26,700,000	27,737,826	29,835,541	27,737,276	26,700,000	27,737,826	24,536,713	27,747,545
	2043	30,676,000	22,309,955	26,253,349	22,485,013	30,676,000	22,309,955	21,122,727	22,441,990
	2044	78,263,210	92,355,217	99,009,920	92,131,898	78,263,210	92,355,217	78,677,702	92,221,080
	2045	2,050,000	2,321,241	2,335,286	2,317,058	2,050,000	2,321,241	1,950,130	2,318,787
		1,796,045,448	1,630,710,485	1,789,651,651	1,686,647,189	1,677,549,372	1,507,165,914	1,444,314,782	1,557,455,544

The fair values of the Government Securities are based on the average quotes published as at 31st December by the Central Bank of Sri Lanka





EMPLOYEES' PROVIDENT FUND Notes to the Financial Statements

19.1.2 Treasury Bills

As at 31 st December	Year of Maturity	2017				2016			
		Face Value Rs.'000	Purchase Cost Rs.'000	Market Value Rs.'000	Amortised Cost Rs.'000	Face Value Rs.'000	Purchase Cost Rs.'000	Market Value Rs.'000	Amortised Cost Rs.'000
Government of Sri Lanka Treasury Bills	2018	68,925,428	63,281,206	64,415,995	64,367,082	-	-	-	-
		68,925,428	63,281,206	64,415,995	64,367,082	-	-	-	-

The fair values of the Government Securities are based on the average quotes published as at 31st December by the Central Bank of Sri Lanka

19.2 Investments in Debt Securities

19.2.1 Corporate Debentures - Quoted

As at 31 st December	Year of Maturity	2017				2016			
		Face Value Rs.'000	Purchase Cost Rs.'000	Market Value Rs.'000	Amortised Cost Rs.'000	Face Value Rs.'000	Purchase Cost Rs.'000	Market Value Rs.'000	Amortised Cost Rs.'000
PABC DC 2012_2017 6MN TBILL + 2.95	2017	-	-	-	-	250,000	250,000	250,000	250,000
Richard Pieris and Company PLC 2017_10.75% p.a	2017	-	-	-	-	35,680	35,680	36,058	35,680
Central Finance PLC_14.50% p.a	2017	-	-	-	-	81,300	81,300	81,300	81,300
Lion Brewery (Ceylon) PLC_13.75 p.a	2017	-	-	-	-	39,900	39,900	44,592	39,900
Singer Finance (Lanka) PLC 14.25%.pa	2017	-	-	-	-	123,306	123,306	135,637	123,306
People's Leasing & Finance PLC 2014-2017 _ 8.75%pa	2017	-	-	-	-	159,540	159,540	162,587	159,540
Sampath Bank Debenture 2012/2017 Fixed 16.5%	2017	-	-	-	-	14,430	14,430	14,719	14,430
Housing Development & Finance Corporation 15%	2017	-	-	-	-	65,580	65,580	69,075	65,580
Central Finance Company PLC_2013-2017_13.25% p.a	2017	-	-	-	-	18,335	18,335	18,335	18,335
Seylan Bank 15% Debenture 2013/18	2018	100,000	100,000	106,000	100,000	100,000	100,000	106,000	100,000
People's Leasing & Finance PLC 5 Year Debenture Fix	2018	105,900	105,900	107,520	105,900	105,900	105,900	111,725	105,900



EMPLOYEES' PROVIDENT FUND Notes to the Financial Statements

19.2.1 Corporate Debentures - Quoted (Contd...)

As at 31 st December	Year of Maturity	2017				2016			
		Face Value	Purchase Cost	Market Value	Amortised Cost	Face Value	Purchase Cost	Market Value	Amortised Cost
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Merchant Bank of Sri Lanka- 5 year Debenture Fix	2018	281,590	281,590	285,729	281,590	281,590	281,590	287,222	281,590
Richard Pieris and Company PLC 2018_11.00% p.a	2018	81,390	81,390	81,390	81,390	81,390	81,390	81,390	81,390
Central Finance PLC_14.75% p.a	2018	105,300	105,300	120,266	105,300	105,300	105,300	120,266	105,300
Lion Brewery (Ceylon) PLC_14.00% p.a	2018	53,200	53,200	61,738	53,200	53,200	53,200	61,738	53,200
Singer Finance (Lanka) PLC_14.50% p.a	2018	93,576	93,576	95,448	93,576	93,576	93,576	95,448	93,576
People's Leasing & Finance PLC 2014-2018 _ 9.625% p.a	2018	32,880	32,880	34,143	32,880	32,880	32,880	34,143	32,880
Nawaloka Hospitals PLC_14.15% p.a	2018	114,500	114,500	114,500	114,500	114,500	114,500	114,500	114,500
Bank of Ceylon_13.00% p.a	2018	575,950	575,950	575,950	575,950	575,950	575,950	575,950	575,950
Sampath Bank Debenture _ Fixed 13.0% p.a	2018	251,775	251,775	246,740	251,775	251,775	251,775	264,993	251,775
Sampath Bank Debenture _ Fixed 13.4% p.a	2018	170,095	170,095	170,945	170,095	170,095	170,095	167,544	170,095
Central Finance Company PLC_2013-2018 _13.50% p.a	2018	15,255	15,255	15,026	15,255	15,255	15,255	16,285	15,255
Central Finance Company PLC_2013-2018 _13.95% p.a	2018	23,950	23,950	26,618	23,950	23,950	23,950	26,618	23,950
National Development Bank PLC_2013-2018 _13.00% p.a	2018	173,160	173,160	169,749	173,160	173,160	173,160	173,353	173,160
National Development Bank PLC_2013-2018 _13.40% p.a	2018	88,240	88,240	88,240	88,240	88,240	88,240	86,916	88,240
Nations Trust Bank PLC_2013-2018 _13.00% p.a	2018	549,150	549,150	550,248	549,150	549,150	549,150	613,730	549,150
Hemas Holding PLC_11.00% p.a_2019	2019	81,980	81,980	83,202	81,980	81,980	81,980	83,202	81,980
Richard Pieris and Company PLC 2019_11.25% p.a	2019	100,000	100,000	97,000	100,000	100,000	100,000	99,120	100,000
Siyapatha Finance PLC - A	2019	500,000	500,000	495,000	500,000	500,000	500,000	500,000	500,000
Lanka ORIX Leasing Company PLC Debenture 9% p.a	2019	100,000	100,203	91,240	100,078	100,000	100,203	89,350	100,119
HNB Debenture _ 7.75% p.a	2019	1,500,000	1,500,000	1,275,000	1,500,000	1,500,000	1,500,000	1,335,000	1,500,000
Sampath Bank Debenture _ 8.10% p.a	2019	1,800,000	1,800,000	1,530,000	1,800,000	1,800,000	1,800,000	1,530,000	1,800,000
Lanka ORIX Finance PLC Debenture _ 9.25% p.a	2020	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Pradeshya Sanwardana Bank Debenture _ 9.00% p.a	2020	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Central Finance Company PLC_2015-2020 _9.52% p.a	2020	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
National Development Bank PLC_2015-2020 _09.40% p.a	2020	2,000,000	2,000,000	1,720,000	2,000,000	2,000,000	2,000,000	1,980,000	2,000,000
Seylan Bank Debenture _ 8.60% p.a 2014/2020	2020	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000
seylan debenture 15.07.2021	2021	1,000,000	1,000,000	1,010,000	1,000,000	1,000,000	1,000,000	1,010,000	1,000,000
Siyapatha Finance PLC - B	2021	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000



EMPLOYEES' PROVIDENT FUND Notes to the Financial Statements

19.2.1 Corporate Debentures - Quoted (Contd...)

	Year of Maturity	2017				2016			
		As at 31 st December							
		Face Value Rs.'000	Purchase Cost Rs.'000	Market Value Rs.'000	Amortised Cost Rs.'000	Face Value Rs.'000	Purchase Cost Rs.'000	Market Value Rs.'000	Amortised Cost Rs.'000
Commercial Bank Debentures Type A 2016-2021	2021	2,000,000	2,000,000	1,743,400	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Nations Trust Bank Type A 2021 12.65%	2021	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
People's Leasing Company 2016-2021	2021	1,000,000	1,000,000	999,600	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Bank Of Ceylon_13.25%-2021	2021	1,141,892	1,141,892	1,141,892	1,141,892	1,141,892	1,141,892	1,141,892	1,141,892
Sampath Bank_12.50%-2022	2022	349,207	349,207	349,207	349,207	-	-	-	-
seylan bank debenture 15.07.2016 to 15.07.2023	2023	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Bank of Ceylon_13.75%p.a	2023	134,090	134,090	136,101	134,090	134,090	134,090	160,559	134,090
DFCC Type B Debenture 12.75%-2023	2023	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
National Development Bank PLC_2013-2023_13.90%p.a	2023	375,000	375,000	322,500	375,000	375,000	375,000	375,000	375,000
National Development Bank PLC_2013-2025_14.00%p.a	2025	500,000	500,000	500,200	500,000	500,000	500,000	501,800	500,000
Commercial Bank Debentures Type B 2016-2026	2026	1,685,110	1,685,110	1,685,110	1,685,110	1,685,110	1,685,110	1,685,110	1,685,110
		24,983,190	24,983,393	23,929,702	24,983,268	25,422,053	25,422,257	25,141,135	25,422,173

19.2.2 Corporate Debentures - Unquoted

	Year of Maturity	2017				2016			
		As at 31 st December							
		Face Value Rs.'000	Purchase Cost Rs.'000	Market Value Rs.'000	Amortised Cost Rs.'000	Face Value Rs.'000	Purchase Cost Rs.'000	Market Value Rs.'000	Amortised Cost Rs.'000
HNB Debenture 14% pa	2018	316,717	316,717	316,717	316,717	316,717	316,717	316,717	316,717
HDFC Bank Debentures HL 2.50%p.a.	2020	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000
DFCC Vardhana Bank Debenture 09.40%p.a	2020	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
SMIB Bank Debentures HL 2.50% p.a.	2020	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000
National Savings Bank_13%-2021	2021	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
HNB Debenture 11.50% p.a	2021	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Hatton National Bank Type A 2016-2021	2021	444,790	444,790	444,790	444,790	444,790	444,790	444,790	444,790
Hatton National Bank Type B 2016-2023	2023	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Bank Of Ceylon_12.75%-2025	2025	5,000,000	5,000,000	5,000,000	5,000,000	-	-	-	-
		10,981,507	10,981,507	10,981,507	10,981,507	5,981,507	5,981,507	5,981,507	5,981,507

The fair values of the corporate debentures - listed : are based on the average prices as at 31st December, published by the Colombo Stock Exchange. Unlisted debentures have been carried at cost as no reliable information are available to estimate the fair value.

EMPLOYEES' PROVIDENT FUND
Notes to the Financial Statements

19.3 Investment in Trust Certificates

As at 31 st December	2017				2016			
	Face Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Amortised Cost Rs.'000	Face Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Amortised Cost Rs.'000
Mercantile Investments & Finance PLC	30,000	17,738	29,623	29,623	210,000	134,687	196,637	196,637
People's Leasing & Finance PLC TC	3,016,772	2,207,751	2,716,453	2,716,453	4,289,810	3,262,907	3,635,955	3,635,955
	3,046,772	2,225,489	2,746,076	2,746,076	4,499,810	3,397,594	3,832,592	3,832,592

20 Loans & Receivables

As at 31 st December	2017 Rs.'000	2016 Rs.'000
Investments in Reverse Repos	-	2,745,000
Investments in Fixed Deposits	48,000,000	-
Net Investment	48,000,000	2,745,000

21 Other Current Assets

As at 31 st December	2017			2016	
	Monetary Board Rs.'000	Labour Dept. Rs.'000	Total Rs.'000	Total Rs.'000	Total Rs.'000
Dividend Receivable	32,793	-	32,793	1,347,843	
Other Receivable	3,925	350	4,275	6,645	
Tax Paid at Source	280,318	-	280,318	191,325	
Income Tax Recoverable	689,273	-	689,273	501,413	
Receivable-Mehewara Piyasa	377,147	-	377,147	427,147	
Prepayments	10,613	11,360	21,973	21,904	
CGL Imprest	-	534,034	534,034	480,290	
	1,394,069	545,744	1,939,813	2,976,568	





EMPLOYEES' PROVIDENT FUND

Notes to the Financial Statements

22 Cash and Cash Equivalents

<i>As at 31st December</i>	2017 Rs.'000	2016 Rs.'000
Cash in Hand	20	4
Cash at Bank	3,273,923	3,941,838
Cash in Transit	-	443,400
	3,273,943	4,385,242

23 Creditors

<i>As at 31st December</i>	2017			2016
	Monetary Board Rs.'000	Labour Dept. Rs.'000	Total Rs.'000	Total Rs.'000
Domestic - Vendors	693	-	693	1,688
Retention - Fixed Asset Purchases	718	-	718	292
	1,411	-	1,411	1,980

24 Other Current Liabilities

<i>As at 31st December</i>	2017			2016
	Monetary Board Rs.'000	Labour Dept. Rs.'000	Total Rs.'000	Total Rs.'000
EPF Contributions Payable	30	-	30	30
Good Received /Invoice Received				
Clearing- Inventory	(4,068)	-	(4,068)	(2,009)
Good Received /Invoice Received				
Clearing-Services/ Assets	(115)	-	(115)	232
Housing Loan Defaults Payable	2,600,000	-	2,600,000	2,600,000
Other Payables	2	-	2	2
Refund Claims Payable	170,999	-	170,999	799,865
Provision for Gratuity	165	-	165	165
Investment Clearing A/C	8,199	-	8,199	8,204
	2,775,212	-	2,775,212	3,406,489



EMPLOYEES' PROVIDENT FUND

Notes to the Financial Statements

25 Member Balances

(Rs.)

Description	Balance as at 01.01.2017 Rs.'000	Debits during the year Rs.'000	Credits during the year Rs.'000	Balance as at 31.12.2017 Rs.'000
Current Year Contribution - Contribution No 01 A/C	54,796,327	165,500,476	163,884,908	53,180,759
Statemented Contribution - Contribution No 02 A/C	1,563,966,321	186,214,239	375,433,784	1,753,185,866
Contribution from Comm. of Labour - CL No 01 A/C	10,979,008	10,006,204	9,782,763	10,755,567
U/P O/P Contributions A/C	1,538,465	1,239,873	1,348,905	1,647,497
Contribution for 1997/98 - 96 Contribution	193	-	-	193
Members Collection A/C	5,885	142,367,354	142,369,836	8,367
Unclaimed Benefits	506,781	395,170	566,329	677,940
Retained Benefits	89,771	17,583	29,032	101,220
Refunds-Part payments(U/P O/P Refunds)	(516,484)	121,838,839	121,777,790	(577,533)
General Deposit Account	356,422	113,824	135,658	378,256
Interest Payable	178,871,829	171,420,905	193,973,415	201,424,339
Total	1,810,594,518	799,114,467	1,009,302,420	2,020,782,471

26 Reserves

(Rs.)

Description	Balance as at 01.01.2017 Rs.'000	Transfer (from)/to during the year Rs.'000	Impairment Rs.'000	Balance as at 31.12.2017 Rs.'000
Investment Revaluation Reserve (Note 26.1)	(3,293,812)	6,033,647	1,502,111	4,241,946
Building Reserve Fund (26.2)	3,157,000	-	-	3,157,000
Technology Advancement Reserve Fund (26.3)	350,000	-	-	350,000
Profit Equalisation Reserve Fund (26.4)	23,850,000	7,000,000	-	30,850,000
General Reserve Fund (26.5)	6,650,000	-	-	6,650,000
Total	30,713,188	13,033,647	1,502,111	45,248,946

Transfers to these reserves are in accordance with the Section 5 (1) (KK) of the EPF Act which provides for establishing such reserves out of the income of the Fund as the Monetary Board may determine to meet any contingencies or any depreciation in the market value of the assets of the Fund.

26.1 Investment Revaluation Reserve

(Rs.)

Description	Balance as at 01.01.2017 Rs.'000	Transfer during the year Rs.'000	Impairment Rs.'000	Balance as at 31.12.2017 Rs.'000
Treasury Bonds	(7,253,181)	6,370,376	-	(882,805)
Treasury Bills	391,116	(354,277)	-	36,839
Equity Securities	3,572,603	119,638	1,502,111	5,194,352
Debenture	(4,350)	(102,090)	-	(106,440)
Total	(3,293,812)	6,033,647	1,502,111	4,241,946

Investment revaluation reserve consists of revaluation gains and losses recognised in other comprehensive income on Available for Sale financial assets.



EMPLOYEES' PROVIDENT FUND

Notes to the Financial Statements

26.2 Building revaluation reserve

Building revaluation reserve has been constituted for the purpose of construction of a building for the Fund.

26.3 Technology Advancement Reserve Fund (TARF)

TARF was established in 1998 with an initial allocation of Rs. 50 Mn in order to meet the expenditure on the progressive modernisation of the EPF system.

26.4 Profit Equalisation Reserve Fund (PERF)

Distributable income to the members can be affected by the wide fluctuations of market prices of the investments made by the Fund. PERF was established in 1998 to use in such a circumstance to avoid such an adverse impact on the distributable income to members of the Fund.

26.5 General Reserve Fund (GRF)

The purpose of the building up the GRF is to absorb losses that may arise from accidental occurrences, which are not covered by the existing reserves.



EMPLOYEES' PROVIDENT FUND

Notes to the Financial Statements

27 Receipts

For the year ended 31 st December	2017			2016
	Monetary Board Rs.'000	Labour Dept. Rs.'000	Total Rs.'000	Total Rs.'000
Income - Interest from Investments	172,452,670	-	172,452,670	158,387,150
Less: Income tax	-	-	-	-
	172,452,670	-	172,452,670	158,387,150
Contributions	133,353,013	-	133,353,013	118,326,507
Reimbursement of Expenses by the EPF-CBSL	-	593,515	593,515	602,520
Imprest Account (Commissioner of Labour)	-	(23,908)	(23,908)	(21,882)
General Deposit Account - (EPF Contributions)	-	11,616	11,616	38,605
Surcharges	576,689	405	577,094	157,103
Proceeds on sale of T. Bonds/T Bills	-	-	-	47,712,175
Proceeds on dealing of Shares	-	-	-	3,818,971
Receipts from Mehewara piyasa	50,000	-	50,000	1,093,400
Dividends	3,570,306	-	3,570,306	2,817,019
Sundry Income	1,218	9,247	10,465	(3,822)
Debtors	2,473	50	2,523	(4,554)
Settlement of Advances	1,122	-	1,122	471
Unclaimed Benefits	210,993	-	210,993	144,187
	310,218,484	590,925	310,809,409	333,067,850

28 Payments

For the year ended 31 st December	2017			2016
	Monetary Board Rs.'000	Labour Dept. Rs.'000	Total Rs.'000	Total Rs.'000
Investments	586,459,418	-	586,459,418	826,843,887
Less - Maturity Proceeds	(406,955,384)	-	(406,955,384)	(615,601,139)
	179,504,034	-	179,504,034	211,242,748
Refunds	117,687,499	-	117,687,499	108,536,270
WHT paid on Investment	10,151,133	-	10,151,133	7,869,248
Operating Expenses	659,511	472,446	1,131,957	1,069,243
Settlement of creditors/payables	2,659,197	-	2,659,197	2,927,373
Income Tax Retained on Refund of Benefits	-	-	-	896
Reimbursement of expenses - Comm. Labour	593,515	-	593,515	602,520
Under payments and over payments - Refunds	-	-	-	-
Acquisition of Property, Plant and Equipments	9,778	54,536	64,314	48,329
Advances - Miscellaneous	1,693	6,249	7,942	10,046
Tax Paid	63,423	-	63,423	-
Adjustment: Cash Balance at the Beginning of the Year	-	67,514	67,514	27,381
Total	311,329,783	600,745	311,930,528	332,334,053



EMPLOYEES' PROVIDENT FUND
Notes to the Financial Statements

29. Movement of Investment

<i>For the year ended 31st December</i>	Opening Balance	Investments	Maturities	Sales	Amortization	Valuation Gain/ Loss	Closing Balance	2017	2016	Change
Type of Investment	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	%	%	%
Fair Value Through Profit & Loss Investments										
Treasury Bonds	11,492,906	-	-	-	-	1,640,202	13,133,108	0.7	0.6	0.0
Listed Equity	2,615,095	-	-	-	-	(163,352)	2,451,743	0.1	0.1	(0.0)
Corporate Debenture	114,500	-	-	-	-	-	114,500	0.0	0.0	(0.0)
	14,222,501	-	-	-	-	1,476,850	15,699,351	0.8	0.8	(0.0)
Available For Sale Investments										
Treasury Bonds	42,680,707	-	50,000	-	4,026	6,370,376	49,005,109	2.5	2.4	0.1
Treasury Bills	38,815,227	5,014,548	41,056,824	-	2,997,940	(354,277)	5,416,614	0.3	2.2	(1.9)
Listed Equity	67,964,684	3,506,042	-	-	-	119,638	71,590,364	3.6	3.8	(0.2)
Unlisted Equity	10,270,625	-	-	-	-	-	10,270,625	0.5	0.6	(0.1)
Corporate Debenture	2,821,179	-	54,015	-	-	(102,090)	2,665,074	0.1	0.2	(0.0)
	162,552,422	8,520,590	41,160,839	-	3,001,966	6,033,647	138,947,786	7.0	9.2	(2.2)
Held to Maturity Investments										
Treasury Bonds	1,557,455,544	174,390,214	57,942,920	-	12,744,351	-	1,686,647,189	84.7	87.9	(3.2)
Treasury Bills	-	72,904,716	9,700,000	-	1,162,366	-	64,367,082	3.2	-	3.2
Corporate Debenture	31,403,680	5,349,207	788,071	-	(41)	-	35,964,775	1.8	1.8	0.0
Trust Certificates	3,832,592	-	1,453,038	-	366,522	-	2,746,076	0.1	0.2	(0.1)
	1,592,691,816	252,644,137	69,884,029	-	14,273,198	-	1,789,725,122	89.8	89.9	(0.0)
Loans & Receivables Investments										
Reverse Repo	2,745,000	962,996,323	965,741,323	-	-	-	-	-	0.2	(0.2)
Fixed Deposits	-	85,500,000	37,500,000	-	-	-	48,000,000	2.4	-	2.4
	2,745,000	1,048,496,323	1,003,241,323	-	-	-	48,000,000	2.4	0.2	(0.2)
Total	1,772,211,739	1,309,661,050	1,114,286,191	-	17,275,164	7,510,497	1,992,372,259	100	100	



EMPLOYEES' PROVIDENT FUND
Notes to the Financial Statements

Movement of Investment (Contd...)
For the year ended 31st December 2016

Type of Investment	Opening Balance Rs.'000	Investments Rs.'000	Maturities Rs.'000	Sales Rs.'000	Amortization Rs.'000	Valuation Gain/ Loss Rs.'000	Closing Balance Rs.'000	2016 %	2015 %	Change %
Fair Value Through Profit & Loss Investments										
Treasury Bonds	1,870,879	10,206,408	-	-	-	(584,381)	11,492,906	0.6	-	0.6
Listed Equity	1,717,657	2,277,611	-	1,120,583	-	(259,590)	2,615,095	0.1	0.1	0.0
Corporate Debenture	114,500	-	-	-	-	-	114,500	0.0	0.0	(0.0)
	3,703,036	12,484,019	-	1,120,583	-	(843,971)	14,222,501	0.8	0.1	0.7
Avialable For Sale Investments										
Treasury Bonds	46,094,809	1,904,870	-	242,490	-	(5,076,482)	42,680,707	2.4	2.9	(0.5)
Treasury Bills	-	37,980,948	-	-	-	834,279	38,815,227	2.2	-	2.2
Listed Equity	75,625,152	1,309,910	-	776,457	-	(8,193,921)	67,964,684	3.8	4.7	(0.9)
Unlisted Equity	10,270,625	-	-	-	-	-	10,270,625	0.6	0.6	(0.1)
Corporate Debenture	3,056,763	-	117,175	-	-	(118,409)	2,821,179	0.2	0.2	(0.0)
	135,047,349	41,195,728	117,175	1,018,947	-	(12,554,553)	162,552,422	9.2	8.4	0.8
Held to Maturity Investments										
Treasury Bonds	1,439,038,587	170,054,526	17,623,200	46,866,090	12,851,721	-	1,557,455,544	87.9	89.7	(1.8)
Treasury Bills	19,422,218	13,671,792	1,690,289	-	(41)	-	31,403,680	1.8	1.2	0.6
Corporate Debenture	2,929,796	2,000,000	1,387,773	-	290,568	-	3,832,592	0.2	0.2	0.0
Trust Certificates	1,461,390,601	185,726,318	20,701,262	46,866,090	13,142,249	-	1,592,691,816	89.9	91.1	(1.2)
Loans & Receivables Investments										
Reverse Repo	4,100,000	1,653,618,285	1,654,973,285	-	-	-	2,745,000	0.2	0.3	(0.1)
	4,100,000	1,653,618,285	1,654,973,285	-	-	-	2,745,000	0.2	0.3	(0.1)
Total	1,604,240,986	1,893,024,350	1,675,791,722	49,005,620	13,142,249	(13,398,504)	1,772,211,739	100	100	



EMPLOYEES' PROVIDENT FUND

Notes to the Financial Statements

30. Fair values of Financial Instruments

30.1 Fair Value Hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 01 : Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 02 : Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 03 : Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Assessing the significance of a particular input requires judgment, considering factors specific to the asset or liability.

30.2 Fair Value Hierarchy – Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the Statement of Financial Position.

	2017			Total	2016			Total
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Financial Assets – FVTPL								
Treasury Bonds	13,133,108	-	-	13,133,108	11,492,906	-	-	11,492,906
Quoted equity securities	2,451,743	-	-	2,451,743	2,615,095	-	-	2,615,095
Quoted debt securities	114,500	-	-	114,500	114,500	-	-	114,500
Financial Assets – Available for sale								
Treasury Bonds	49,005,109	-	-	49,005,109	42,680,707	-	-	42,680,707
Treasury Bills	5,416,614	-	-	5,416,614	38,815,227	-	-	38,815,227
Quoted equity securities	71,590,364	-	-	71,590,364	67,964,684	-	-	67,964,684
Unquoted equity securities*	10,270,625	-	-	10,270,625	10,270,625	-	-	10,270,625
Quoted debt securities	2,665,074	-	-	2,665,074	2,821,179	-	-	2,821,179
Financial Assets – Held to Maturity								
Treasury Bonds	1,789,651,651	-	-	1,789,651,651	1,444,314,782	-	-	1,444,314,782
Treasury Bills	64,415,995	-	-	64,415,995	-	-	-	-
Quoted debt securities	23,929,702	-	-	23,929,702	31,122,641	-	-	31,122,641
Unquoted debt securities*	10,981,507	-	-	10,981,507	-	-	-	-
Trust Certificates*	2,746,076	-	-	2,746,076	3,832,592	-	-	3,832,592
Financial Assets – Loans & Receivables								
Repo Investments*	-	-	-	-	2,745,000	-	-	2,745,000
Fixed Deposits*	48,000,000	-	-	48,000,000	-	-	-	-

* Since observable data are not available to value these financial instruments, cost has been substituted as the fair value. The Fund considers the transaction price for the instrument provides better evidence of the fair value of the instrument than its own estimate of fair value, unless it is evidenced to contradictory.



EMPLOYEES' PROVIDENT FUND

Notes to the Financial Statements

31. Financial Risk Management Objectives, Policies and Processes

Introduction

EPF being a Superannuation Fund manages long term savings of private and semi Government sector employees with the objective of maximising retirement benefits to its members while ensuring safety of the Fund. Therefore, management of risks associated with the Fund is critically important for the members as well as for the entire financial system of the country. The EPF embraces risk management, as an integral component of its investments, operations and decision making process.

The Investment Policy Statement and Investment and Trading Guidelines define the level of risks the EPF is willing to tolerate and form the basis of allocation of funds for investment. The asset allocations are regularly reviewed to ensure that funds are invested within the risk appetite of the EPF. The key risks faced by the Fund are Credit Risk, Market Risk, Liquidity Risk and Operational Risk.

Credit Risk

Credit Risk is the risk of loss due to the inability or unwillingness of a borrower/ counter-party to meet its payment obligations. The credit risk of the Fund is deemed minimal as 91% of the total investment is concentrated in Government Securities. Further the other investments are made in highly creditworthy corporate debt instruments (investment grade) after thorough analysis of risks and returns. In additions, all Reverse Repo Investments of the Fund have been adequately collateralize by Government securities for fluctuations in market value. Therefore, the credit risk of the Fund as a whole was at a very low level. Composition of the investments of the Fund as at the year end is as follows.

Analysis of Risk Concentration – Investment Composition (at cost)

	2017		2016	
	Amount Rs.'000	%	Amount Rs.'000	%
Government Securities	1,761,128,002	90.8%	1,607,314,601	92.9%
Corporate Debt Securities	38,850,915	2.0%	34,343,794	2.0%
Investment in Equity Securities	89,441,026	4.6%	83,106,755	4.8%
Other	50,225,489	2.6%	6,142,594	0.4%
	1,939,645,432	100.0%	1,730,907,744	100.0%

Market Risk

Market Risk is the risk of losses from changes in the market value of portfolios and financial instruments due to movements in interest rates, foreign exchange and equity prices. The market risk faced by the Fund primarily arises from interest rate risk and equity price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Interest Rate Risk : If the general interest rates of the economy are to increase, yields of treasury bonds will follow, causing prices of the bonds to drop and value of the trading and AFS portfolio to deteriorate. This is the interest rate risk faced by the Fund. However, this has been mitigated by selecting treasury bonds of varying maturities, limiting the size of the trading portfolio and re balancing the portfolio occasionally.

Equity Price Risk : The equity price risk is the reduction in the value of equity portfolio due to the decline in share prices. This is an inherent risk of equity investments which has been mitigated by investing in fundamentally sound stocks with robust value. Further, the listed equity portfolio has been diversified into different sectors and the market risk on the listed equity portfolio is relatively low on the overall Fund since exposure to the equity market is approximately 4.6% of the total portfolio of the Fund and as the Fund makes appropriate adjustments to its portfolio from time to time as and when necessary.



EMPLOYEES' PROVIDENT FUND

Notes to the Financial Statements

Financial Risk Management Objectives, Policies and Processes (Continued...)

Analysis of Risk Concentration – Sector wise exposure analysis

	2017		2016	
	Amount Rs.'000	%	Amount Rs.'000	%
Banking, Finance and Insurance	31,501,035	40.04%	27,994,993	37.25%
Beverage, Food and Tobacco	2,635,722	3.35%	2,635,721	3.51%
Construction and Engineering	3,240,545	4.12%	3,240,544	4.31%
Chemical and Pharmaceutical	1,160,289	1.47%	1,160,289	1.54%
Diversified Holdings	12,676,928	16.11%	12,676,928	16.87%
Footwear and Textile	213,592	0.27%	213,592	0.28%
Hotels and Travels	9,685,658	12.31%	9,685,658	12.89%
Health and Care	155,190	0.20%	155,190	0.21%
Investment	559,702	0.71%	559,702	0.74%
Motors	1,625,690	2.07%	1,625,690	2.16%
Manufacturing	4,911,996	6.24%	4,911,996	6.54%
Oil Palms	2,310,610	2.94%	2,310,610	3.07%
Power and Energy	3,502,660	4.45%	3,502,660	4.66%
Plantations	78,419	0.10%	78,419	0.10%
Telecommunications	2,600,163	3.31%	2,600,163	3.46%
Trading	1,812,203	2.30%	1,812,203	2.41%
Total	78,670,401	100%	75,164,361	100

Liquidity Risk

Liquidity Risk is the risk arising from the inability of the EPF to meet its financial commitments and obligations when they fall due. The net contribution of the Fund has been around Rs. 1.3 Bn per month during the year. Further, interest and maturity proceeds provided additional cash flow to the Fund. EPF actively participates in the overnight Reverse Repo market as a lender enabling the Fund to maintain adequate Funds to meet daily liquidity requirements.

Management of liquidity risk includes taking steps to ensure, as far as possible, that it will always have adequate financial resources to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

Further, the Fund maintains sufficient amounts/ instruments of different maturities and highly liquid assets in order to meet all its liquidity needs through which the overall liquidity risk of the Fund is mitigated to greater extent.

Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or external events. The Members' accounts of the Fund are maintained in a system that records all transactions centrally, while facilitating greater integration of processes in the EPF System at the CBSL, leading to significant improvement in operational efficiency and greater accuracy of data, with minimum manual interventions.

Operational activities are audited by an independent internal auditor and audit findings are discussed on a monthly basis to rectify the weaknesses and deviations immediately. Further, the operational risk of the fund is managed through defined authority level for transactions, availability of operational manuals, restrictions to access to information through password protection, maintenance of separate investment risk management unit and operational risk register etc. Operational risk of the Fund has been further minimised by maintaining an online real-time backup system to maintain member accounts which enables the Fund to carry out its functions without any disruptions. In addition, the Strategic Plan is reviewed every year to ensure smooth functioning of the operations in the event of any unforeseen circumstances. Accordingly the operational risk of the Fund is at very low level.

Further, the EPF aims to improve its operational risk management process by including all its activities in operational risk management function and make it an integral part of the EPF's decision making process.



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32. Classification of Maturity Profile of the Portfolio
As at 31st December 2017

Class Of Investment	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2032	2033	2034	2035	2041	2043	2044	2045	Not Defined	Total
(Rs. mn)																							
Treasury Bond																							
HTM	109,229	87,775	98,545	54,785	98,138	129,454	68,289	111,850	194,361	25,408	197,456	85,860	48,450	95,263	139,085	75,158	39,250	26,700	30,676	78,263	2,050	-	1,796,045
AFS	1,700	-	76	1,605	2,125	1,650	2,650	14,600	404	-	2,100	193	4,750	779	-	-	11,723	-	-	-	2,720	-	47,075
FVTPL	500	-	500	-	1,000	-	1,745	-	3,000	-	3,250	350	350	-	-	-	1,850	-	-	-	-	-	12,545
Sub totals	111,429	87,775	99,121	56,390	101,263	131,104	72,684	126,450	197,765	25,408	202,806	86,403	53,550	96,042	139,085	75,158	52,823	26,700	30,676	78,263	4,770	-	1,855,665
Corporate Debentures																							
HTM	3,133	4,082	7,220	10,487	349	3,509	-	5,500	1,685	-	-	-	-	-	-	-	-	-	-	-	-	-	35,965
AFS	1,312	1,259	200	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,772
FVTPL	115	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	115
Sub totals	4,559	5,341	7,420	10,487	349	3,509	-	5,500	1,685	-	-	-	-	-	-	-	-	-	-	-	-	-	38,851
Treasury Bills	74,475	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	74,475
Trust Certificates	1,817	806	424	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,048
Fixed Deposits	48,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	48,000
Listed Equity																							
FVTPL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,452	
AFS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	71,590	
Sub totals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	74,042	
Unlisted Equity																							
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,271	
Grand total	240,281	93,923	106,966	66,877	101,612	134,613	72,684	131,950	199,450	25,408	202,806	86,403	53,550	96,042	139,085	75,158	52,823	26,700	30,676	78,263	4,770	84,313	2,104,353





ජාතික විගණන කාර්යාලය

தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல.
My No.

LEWB/EPF/FA/2017

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

28 November 2018

Honorable Minister,

Ministry of Labour and Trade Union Relations.

Report of the Auditor General on the Financial Statements of Employees' Provident Fund for the year ended 31 December 2017 in terms of Section 6 (3) of the Employees' Provident Fund Act, No. 15 of 1958.

The audit of financial statements of the Employees' Provident Fund for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of income and expenditure, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 6 (3) of the Employees' Provident Fund Act, No. 15 of 1958. My comments and observations which I consider should be published with the Annual Report of the Fund in terms of Section 6 (3) of the Employees' Provident Fund Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

The 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 consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform



the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund'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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2:2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effect 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' Provident Fund as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

a) Sri Lanka Accounting Standard 16

(i.) In terms of Section 07 of the Standard, the cost of an item shall be recognized as an asset if and only if it is probable that future economic benefits associated with the item will flow to the entity. However, irrespective of that, sums of Rs. 1,029,145 and Rs. 3,172,415 incurred on repairing machines, and vehicle repairs respectively under 02 Capital Objects, had been capitalized in the year under review. Furthermore, provision on depreciation had been made by 20 per cent on the expenditure incurred on repairing vehicles since the year 2013; and hence, the value of depreciation relating to the year under review had been overstated by Rs. 1,804,446 as well.

(ii.) Due to failure in reviewing the useful life of non-current assets annually in terms of Section 51 of the Standard, fixed assets valued at Rs. 209,264,405 were still in use despite being fully depreciated as at 31 December 2017, but action had not been taken to rectify the estimated error in accordance with Sri Lanka Accounting Standard 08.

2.2.2 Accounting Policies

The following observations are made.

- (a) Computer software should have been shown under intangible assets in accordance with the accounting policy of the Fund. Nevertheless, the software valued at Rs. 4,626,366 purchased in the year 2017 had been shown under computers and accessories.

- (b) According to the accounting policy of the Fund, it had been identified that the intangible assets purchased before 31 December 2016, should be amortized within a period of 02 years; however, those assets had been amortized throughout a period of 04 years.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Contributions totalling Rs. 100,583,388 retained in General Deposits Accounts of the District Labour Offices of the Department of Labour until being settled after having recovered by filing cases against the employers, had not been brought to accounts by the Fund.
- (b) Action had not been taken even up to the date of this report, 31 December 2017 to credit the sum of Rs. 10,756 million as at 31 December 2017 maintained over an extensive period in an account under the name of Commissioner of Labour in the Members' Fund of the Fund after being recovered by filing cases against the employers, along with the sum of Rs. 378 million as at 31 December 2017 that had been retained in a General Deposits Account after being recovered by filing cases until being settled, to the individual accounts of the members. Furthermore, a sum of Rs. 779 million as being retained and unclaimed benefits, and a sum of Rs. 1,647 million as being underprovision/overprovision contributions, had been shown in the Members' Fund as at as at 31 December 2017, but no action had been taken to identify and settle those balances.

The following observations are further made in connection with the aforesaid matter.

- (i) The Committee was informed by the Chief Accounting Officer that a new computer software was being introduced so as to expedite the process of settling the aforesaid sum of Rs. 10,756 million in accordance with the Recommendation, No. 7 (ii) of the Public Accounts Committee, dated 06 February 2013. Nevertheless, no computer software was identified even up to the date of this report. However, the said balance that amounted to Rs. 8,142 million as at the end of the year 2015 became Rs. 10,979

million and Rs. 10,756 million as at the end of the years 2016 and 2017 respectively, thus indicating a growing trend in that balance.

- (ii) The members had been deprived of interest income as the sum of Rs. 377,716,250 retained in a General Deposits Account as mentioned above, had not been credited to the members' accounts.
- (iii) Despite being ordered continuously by the Public Accounts Committee since the year 2013 that the sum of Rs. 779 million shown as retained and unclaimed benefits, together with the balance of Rs. 1,647 million in the UP/OP Account as at 31 December 2017, be settled, it had not been so done. In the wake of those balances being on the increase annually with no interest received, it was observed in audit that it was essentially necessary for the attention of the Fund be brought on the formulation of a methodology in order to immediately settle such balances.
- (c) Accrued expenses had been understated in accounts by a sum of Rs. 1,946,676 as at 31 December 2017.
- (d) As for 07 bank accounts being maintained by the Fund, a sum totaling Rs. 1,413,749,124 had been shown in the bank reconciliation statements over a period of 10 years comprising of issued cheques that had been dishonored, dishonored cheques that had been deposited, deposited cheques, cash deposits that had not been recorded in the cash book, direct debits/credits, and unidentified other balances, along with a sum of Rs. 1,479,240,883 comprising of unrealized cash/money orders despite being deposited, unrealized cheques, and un-encashed cheques despite being issued. Nevertheless, no action had been taken even up to the date of this report to identify and adjust those balances.
- (e) The income tax balance of Rs. 285,108,000 arisen in the wake of an accounting error that had taken place in the year 2016, had further been shown under current assets without being rectified in the year under review.

2.2.4 Unexplained Differences

The following observations are made.

- (a) According to financial statements relating to 03 categories of fixed assets , the balance amounted to Rs. 881,432,176 as at 31 December 2017, but the total of those balances amounted to Rs. 537,780,607 as per the schedule made available, thus observing a difference of Rs. 343,651,569.
- (b) According to the bank verification relating to 02 current accounts that remained dormant as at 31 December 2016, the balances thereof totaled Rs. 69,755 though, that sum was shown as Rs. 6,810,000 in the financial statements. As such, a difference of Rs. 6,740,245 was observed in the cash balance.

2.2.5 Lack of Evidence for Audit

The evidence shown against the following items, were not made available to Audit.

Item	Value	Evidence not Made Available
	(Rs.,000)	
(i) Investments in Treasury Bills.	69,783,696	<ul style="list-style-type: none"> Recommendations for investing, approval of the Investment Committees and Monetary Boards.
(ii) Investments in Shares – Listed.	74,042,107	<ul style="list-style-type: none"> Register of Shares. Sector wise Schedules.
(iii) Investments in Shares – Non-listed.	10,270,625	<ul style="list-style-type: none"> Share Certificates. Share Register. Sector wise Schedules. Confirmation of Balances.
(iv) Fixed Deposits.	48,000,000	<ul style="list-style-type: none"> Paper of the Monetary Board granting special approval for investing in fixed deposits. Confirmation of balances.

		<ul style="list-style-type: none"> Decisions taken by the Investment Committee.
(v) Debentures.	5,349,207	<ul style="list-style-type: none"> Debenture Certificates. Approvals of the Investment Committee and the Monetary Board.
(vi) Trust Certificates.	2,746,076	<ul style="list-style-type: none"> Trust Certificates. Approvals of the Investment Committee and the Monetary Board. Confirmation of Balances. Detailed Schedules.
(vii) Other Revenue – Surcharges, and Department of Labour.	587,600	
(viii) Property, Plant and Equipment (Cost).	309,219	<ul style="list-style-type: none"> Register of Fixed Assets.
(ix) “MehewaraPiyasa” funds receivable from the Treasury.	377,147	<ul style="list-style-type: none"> Confirmation of Balances.
(x) Commissioner General of Labour – Imprest.	534,034	<ul style="list-style-type: none"> Confirmation of Balances. Schedules.
(xi) Benefits Payable.	170,999	<ul style="list-style-type: none"> Detailed Schedules.

2.3 Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following non-compliances with Laws, Rules, Regulations, and Management Decisions, were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
(a) Section 8.7 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, and Public Enterprises Circular, No. 03/2016, dated 29 April 2016.	The PAYE tax of the officers of the Central Bank of Sri Lanka attached to the Employees' Provident Fund had not been recovered from the relevant officers; instead, a sum of Rs. 17,915,000 had



been paid by the Fund in the year under review. Despite being informed at the session of the Public Accounts Committee held on 26 February 2016 that a proper methodology and a procedure for update be formulated by discussing with the Secretary to the Ministry of Finance in compliance with instructions of the budget for the year 2016 and the Public Finance Circulars, it had not been done so even up to the end of July 2018.

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

(i) Financial Regulation 395 (b) & (c). Bank reconciliation statements had not been prepared relating to the bank account being maintained for direct debits and credits of the Fund.

(ii) Financial Regulation 570.

Even though 03 years and 02 years had elapsed with respect to the advance of Rs. 813,686 received for the "Mehewara Piyasa" building, and the sum of Rs. 450,530 retained in respect of contracts and other agreements respectively, action had not been taken to settle them; instead, those monies had been retained in 02 General Deposits Accounts.

(c) Public Finance Circular, No. 05/2016, dated 31 March 2016. The Board of Survey for the year 2017 had not been conducted on the Property, Plant and Equipment valued at Rs. 185,330,000 and existed in the

Employees' Provident Fund of the Central Bank of Sri Lanka, thus failing to present the reports thereof to the Audit.

(d) Circulars of the Department of Labour.

(i) Section 3.1 of the Circular, No. 15/2007, dated 31 October 2007. There were 86 instances in which inspection reports had been furnished after a delay of 10 – 30 days from the date of conducting field inspections by the Labour Officers of the District Labour Office, Maharagama, along with 284 instances in which inspection reports had been furnished after delays exceeding 30 days.

(ii) Circular, No. 08/2002, dated 20 May 2002. Action had not been taken by the District Labour Offices in Maharagama, and Colombo Central to maintain a Register of Institutions containing information such as, registration number, name of the institution, address, nature of the business, number of employees, and the date of last inspection.

(e) Circular, No. 01/99, dated 11 February 1999. It was observed in the audit test check carried out with respect to the period from June 2016 up to July 2017 that there had been 33 instances in which red notices had not been issued although 14 days had elapsed from the date of issuing the first reminder by the District Labour Office, Maharagama, and 67 instances in which a delay ranging from

27 days to 283 days had occurred before issuing red notices.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review had been a net profit of Rs. 202,947 million as compared with the corresponding net profit of Rs. 175,927 million in the preceding year thus observing an improvement of Rs. 27,020 million in the financial result of the year under review as compared with the preceding year. The increase in the interest income of the year under review by a sum of Rs. 22,861 million had mainly attributed to the improvement of the financial result.

The analysis on the financial results of the year under review and 04 preceding years indicated that the net profit of the Fund for the year 2013 amounting to Rs. 125,610 million had continuously increased to Rs. 202,947 million by the year under review. Furthermore, once the employee remuneration, taxes paid to the Government, and depreciation on non-current assets had been adjusted to the financial result, the contribution of the Fund for the year 2013 amounting to Rs. 136,299 million had continuously increased to Rs. 222,730 million by the end of the year under review.

3.2 Legal Cases Instituted by the Fund

The Fund had filed 9030 cases before the Courts throughout the Island as at 31 December 2017 against external institutions for the recovery of contributions and surcharges totaling Rs. 10,050,779,371.

4. Operating Review

4.1 Performance

4.1.1 Functionality and Review

The following observations are made.

- (a) According to the Action Plan of the Employees' Provident Fund Division of the Department of Labour for the year 2017, it had been planned to create a television advertisement for promoting the Fund at an estimated cost of Rs. 08 million, and air the advertisement for 80 times within a month on 02 television channels. Nevertheless, only a television advertisement had been created within the year under review.
- (b) In spite of being planned under the project for obtaining photographs and fingerprints to collect fingerprints of 100,000 members at an estimated cost of Rs. 17 million, that project had not been implemented. Although it was planned to collect fingerprints of 50,000 officers of the Department, fingerprints of only 12,600 officers had been collected.
- (c) According to the annual Action Plan of the Employees' Provident Fund Division of the Central Bank of Sri Lanka for the year 2017, it had been planned to carry out activities such as, presentation of research reports relating to investments and fund management; improvement of accounting and investment software (SAP System) with the assistance of Information Technology Division; publishing advertisements on TV and newspapers in regard to new facilities of the Employees' Provident Fund; and, publishing and up-to-date and detailed handbook for guiding employers and clientele. Nevertheless, those activities had not been carried out in the year under review.

4.2 Investment of Funds

The following observations are made.

- (a) It was stated in Chapter 32 – "Determination and Report on Issues Stated in the Mandate" (Pages :880 – 910) of the report of "Presidential Commission of

Inquiry to Investigate and Inquire into the Issuance of Treasury Bonds" relating to the period from 01 February 2015 to 31 March 2016, that the Perpetual Treasuries Limited had earned net profits totaling Rs. 11,145,221,480 through transactions performed with respect to 07 Treasury Bonds. It was mentioned that a net profit amounting to Rs. 8,529,964,496 out of the said amount, had been earned through Government institutions inclusive of Employees' Provident Fund.

The 15th Recommendation in Chapter 33 of the said report (Pages : 911 – 922) expected that whether any loss was found to have been sustained by the Employees' Provident Fund in the investigation carried out by the Monetary Board and the Central Bank of Sri Lanka on transactions performed by the Employees' Provident Fund and if so, the officers responsible therefor be identified, and a thorough investigation be carried out as to the recovery of such a loss from the officers responsible. Furthermore, it was also recommended to look into the parties that had been privileged to perform transactions on behalf of the Employees' Provident Fund, and the persons who had acted fraudulently.

- (b) The Fund, together with 02 other Government institutions, had made an investment in a company related to a hotel complex proposed to be built newly under a cost estimate totaling Rs. 12 billion; and, a sum of Rs. 05 billion from the Fund had been invested therein by the end of the year 2013. According to the agreement of the shareholders signed on 04 June 2013 in that connection, it had been decided to list the shares of that company at the share market prior to the end of the year 2015. However, those activities had not been completed even up to the end of June 2018 due to delays in the constructions. As such, the Fund had not received any benefit whatsoever since the date of investment.

According to the comment of the Deputy Governor of the Central Bank of Sri Lanka, the relevant hotel company informed that it had been decided by the Government to suspend the constructions of the said company thereby selling it.

- (c) A sum of Rs. 1,516 million had been invested by the Fund in 31 million shares of the companies such as, Sri Lanka Airlines, The Finance Company PLC, and Galadari Hotels (Lanka) PLC, but no benefit whatsoever had been received by the Fund ever since the date of investment. Moreover, the computed value of

impairment loss amounted to Rs. 1,300 million as the market value of the said investments amounted to Rs. 216 million as at 31 December 2017 whilst being revealed by the Audit that the companies named, Sri Lanka Airlines, and The Finance Company PLC, had already been sustaining losses at the time of investing in those companies.

- (d) Even though an investment of Rs. 44 million had been made by the Fund in 11 million shares of the PC House Company in the year 2013, the Fund had not received any benefit whatsoever since the date of investment. It was revealed that the company had already been sustaining losses at the time of making investment. Furthermore, an actual loss of Rs. 43 million had been sustained by the Fund following the sale of those shares in the year 2016.

4.3 Management Activities

The following observations are made.

- (a) Several officers of the district office in Western Colombo had provided housing loans in the year 2017 for 63 members through a state bank using their provident funds as a surety in a fraudulent manner. The value for Certificates of balances of Employees' Provident Fund housing loan sureties that had been issued, totaled Rs. 63,169,974.
- (b) In terms of Section 23 (a) of the Employees' Provident Fund (Amendment) Act, No. 02 of 2012, providing the members fulfilling the requirements of the Act with benefits relating to housing and medical treatments equivalent to 30 per centum of the amount lying to his credit in his individual account had been commenced with effect from May, 2015. Accordingly, a sum totaling Rs. 58,300 million had been paid during 2015 – 2017 as payments of prior benefits.

However, the said Amendment Act had not stated the legal process required for follow-up action to ensure that the contributions so released to the members would be utilized on the said purposes. As such, it was observed that there was a possibility for the said contributions to be used on other purposes.

- (c) According to the Annual Report of the Central Bank of Sri Lanka, 69 per cent or 2,626,169 active members had contributed to the Employees' Provident Fund out of the total of 3,799,628 employees reported to have been employed in the private, and Semi-Government sectors by the end of the year 2017. As only 11 per cent of the employees had contributed to other approved provident funds, the rest of the 20 per cent of employees had not contributed to any of the funds. Attention had not been drawn on the possibility of granting membership of the Fund to such employees.

4.4 Operating Activities

The following observations are made.

- (a) In terms of Section 3 of the Employees' Provident Fund (Amendment) Act, No. 26 of 1981, surcharges should be calculated for the delay in respect of the employers failing to pay the contributions to the Fund on time. However, it was revealed in audit test checks carried out on the database of the Central Bank of Sri Lanka that action had not been taken to recover surcharges for delay totaling Rs. 39,392,187 from 08 employers of the District Labour Office in Maharagama relating to the period from the year 2000 up to September 2017 whilst surcharges totaling Rs. 119,850,759 had not been recovered as at 25 October 2017 from 14 employers pertaining to the District Labour Office in Colombo Central.
- (b) In terms of Section 14 of the Employees' Provident Fund Act, No. 15 of 1958, Interest at such rate, not less than two and a half per centum per annum, shall be paid by the Monetary Board for each year, out of the income from the investment of the moneys of the Fund, on the amount standing to the credit of the individual account of each member of the Fund. Taking into account the rates of interest so paid in 2017 and the years prior, the rate had gradually declined from 13.75 per cent to 10.5 per cent during the period 2009 – 2014. As for 03 preceding years and the year under review, the rate of interest remained fixed at 10.5 per cent.

4.5 Underutilization of Funds

As annual estimates had been prepared without identifying the requirements properly, the saving of provision allocated for 09 Objects in the year 2017 ranged between 13 per cent – 80 per cent.

4.6 Underutilized Assets

The Fund had purchased a printer in November 2007 incurring a cost of Rs. 21,884,084, but printing had been done through external institutions without making use of the maximum capacity of the printer. A sum totaling Rs. 32,324,470 had been paid during 2013 – 2016 only for printing the ABH Forms.

4.7 Resources Released to other Government Institutions

Expenses totaling Rs. 1,298,638 had been incurred by the Fund in 23 instances during the year under review on the repairs of 16 vehicles owned by the Department of Labour.

4.8 Staff Administration

The following observations are made.

- a) There had been no personnel approved by the Monetary Board attached to the staff of the Central Bank of Sri Lanka in the Employees' Provident Fund. The actual cadre of 159 in the year 2015, had increased to 176 by the end of the year under review.
- b) The approved cadre in the Department of Labour relating to the Fund had been 303 with the actual cadre of 200 by the end of the year 2017 indicating 103 vacancies. The vacant staff consisted of 09 posts in the staff grade, and 93 posts in the non-staff grade. The fact that the existence of vacancies in senior posts had not directly caused the delays in the administration of the Fund including settlement of funds, and taking legal action, could not be ruled out in audit.

- c) The cost per employee of the Fund relating to the years 2017 and 2016 is shown below.

	Year 2017		Year 2016	
	Department of Labour	Central Bank of Sri Lanka	Department of Labour	Central Bank of Sri Lanka
Cost on Salaries (Rs. '000)	387,855	459,475	383,175	477,974
Actual Cadre	805	176	812	184
Cost per Employee (Rs. '000)	482	2,611	472	2,598
Difference in the Cost per Employee (Rs. '000)	2,129		2,126	

As compared with the cost per employee of the Department of Labour in Employees' Provident Fund, it was observed that the cost per employee of the Employees' Provident Fund Division of the Central Bank of Sri Lanka had increased by sums of Rs. 2,126,000 and Rs. 2,129,000 in the years 2016 and 2017 respectively. The main reason therefor had been the salary anomalies between the Department of Labour and the Central Bank of Sri Lanka.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

In terms of Letter, No. NP/SP/SDG/17 of the Secretary to the Ministry of National Policies and Economic Affairs relating to sustainable development, every Government institution should comply with the 2030 Agenda for Sustainable Development adopted by the United Nations. As the Employees' Provident Fund had not been aware as to how to act in regard to the activities under its purview, no action had been taken to identify the sustainable development goals and targets, milestones in reaching those targets, and the indicators to measure the achievement of the targets.

The Deputy Governor of the Central Bank of Sri Lanka commented that the Central Bank of Sri Lanka, as an institution, was taking measures in that connection, and the functions of Employees' Provident Fund, being a department of the Central Bank of Sri Lanka, had not directly linked to the objectives thereof.

6. Accountability and Good Governance

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6.1 Audit Committees

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Meetings of the Audit Committee relating to the Fund are held with all the institutions functioning under the Ministry of Labour. In addition to that, a separate meeting of the Audit Committee had been held under the Department of Labour; however, the Central Bank of Sri Lanka involved in financial administration of the Fund and the internal auditors thereof, had not participated therein. Attention should be brought on the requirement of conducting a separate Audit Committee meeting for the Fund having a sum of Rs. 2,066 billion with the participation of officers of the Department of Labour and the Central Bank of Sri Lanka attached to the Fund.

6.2 Procurements

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The following observations are made.

- (a) A Procurement Plan for the year 2017 had been prepared though, the Plan had not been reviewed in a timely manner in terms of Guideline 4.2.1 (e) of the Government Procurement Guidelines whilst being observed that the Plan had not been made use of as an instrument of management. Furthermore, the procurement activities valued at Rs. 27,041,800 such as, computerization and scanning of "A" and "H" Sheets; printing of ABH Forms and Loan 14 Forms; and printing of property loan and other formats, had not been included in the Procurement Plan of the year under review.

(b) According to the Procurement Plan for the year 2017, it had been scheduled to commence all the procurements in the first quarter and conclude in the second quarter. Nevertheless, many of the procurements had not been commenced in the first quarter as planned, and hence, such procurements could not be concluded in the second quarter. As procurements had not been planned efficiently although provision had been made in the annual estimate, many of the purchases had been made in the last month of the year.

(c) The deficiencies observed in general with regard to the procurements made in the year 2017 by the Employees' Provident Fund Division of the Department of Labour, are as follows.

(i.) A Procurement Timetable had not been prepared for each procurement in terms of Guidelines 4.2.2 & 4.2.3 of the Procurement Guidelines. As such, it was revealed that the responsibilities and duties of the Procurement Committees and Technical Evaluation Committees described in Guidelines 2.5.1 (b) & (c) and 2.6.1 (a) (i) of the Procurement Guidelines had been ignored. Furthermore, scheduling the meetings of the Procurement Committees and Technical Evaluation Committees, maintenance of attendance registers, and preparation of the minutes of the meetings in a specific format, had not been done in terms of Guidelines 2.11.1, 2.11.2, and 2.11.3 (a).

(ii.) A Total Cost Estimate had been prepared in accordance with Guideline 4.3.1 of the Procurement Guidelines, but all the relevant costs had not been included therein. Hence, the Estimate had not been approved by the Head of the Department in terms of Guideline 4.3.2 of the Procurement Guidelines.

(iii.) Main eligibility criteria and qualification requirements of the successful bidder had not been included in the bid invitations in terms of Guideline 5.3.2 of the Procurement Guidelines.

(iv.) The minimum bidding period of the national competitive bidding should be 21 days in accordance with Guideline 6.2.2 of the Procurement Guidelines. However, with respect to 08 procurements made thereunder, bidding periods of less than 21 days had been provided.

(d) The following observations are made on the procurement of computerization and scanning of "A" and "H" Sheets of the Fund.

- (i.) According to Guideline 7.4.1 of the Procurement Guidelines, bids should be evaluated as soon as possible. The Technical Evaluation Committee should conclude the evaluation of bids within 50 per cent of the validity period of the bids in terms of Chapter 7 of the Procurement Manual. Accordingly, the said evaluation of bids should have been concluded within a period of 45 days, but a period as extensive as 120 days had been spent therefor.
- (ii.) It was observed in the examination of technical evaluation reports that bid examination and detailed bid evaluation had not been carried out in accordance with Guideline 7.7.1 (b) of the Procurement Guidelines. Furthermore, attention had been paid more on following the laws relating to labour than evaluating the technical aspects when evaluating bids.
- (iii.) In terms of Guideline 5.3.19 (b) of the Procurement Guidelines, post qualification criteria should also be clearly stated in the Bidding documents. Contrary to that, only the selected bidder had been provided with an opportunity for a practical test.
- (iv.) It is necessary to determine in terms of Guideline 7.10.1 (b) of the Procurement Guidelines that the bidder who has submitted the lowest evaluated bid has the required capacity and resources to carry out the contract effectively. Nevertheless, it was not verified according to the technical evaluation report that the adequacy and suitability of resources such as hardware, software, and staff with technical know-how pertaining to the institution selected for supply of the said service, had been evaluated by the Technical Evaluation Committee.
- (v.) A Bid Evaluation Report had not been prepared by the Technical Evaluation Committee in terms of Guideline 7.11.1 of the Procurement Guidelines.

- (vi.) The specifications had stated that the bidder should possess an accuracy of 99.8 per cent in computerizing data. However, data had been computerized with many a mistake in 02 instances of examining the capability. Although data had been computerized with about 10 per cent of errors in one instance, that bidder had been selected as being successful. According to the specifications, at least 40,000 "A" and "H" Sheets should have been computerized and scanned per month; however, only 28,622 Sheets had been completed monthly during the period of 01 April 2017 - 31 December 2017. Owing to that inefficiency, about 400,000 "A" and "H" Sheets had been retained at the stores of the Central Filing Section without being computerized or scanned as at 31 December 2017.
- (vii.) Due to reasons such as, failure to adhere to a plan properly, and the delay in the said procurement, the service of computerizing and scanning the "A", "B", "H", "I", and "J" Sheets had been obtained during the period of 01 April 2016 - 31 March 2017 from the institution which had provided that service in the preceding year by deviating from the Government Procurement Guidelines - 2006, and a sum of Rs. 3,978,800 had been paid in that connection. Despite being recommended by the Technical Evaluation Committee on 26 September 2016 to prepare a plan in order to train the Data Entry Clerks of the relevant District Labour Offices with a view to executing the said activity at the District Labour Offices in the future, it was revealed in the audit that the management had not brought their attention on the said proposal.
- (e) The following observations are made on the procurement for printing the ABH Forms of the Fund.
- (i.) Specifications and bid documents had not been prepared in accordance with Guideline 5.1.1 (a) of the Procurement Guidelines. As such, a bidder who had requested several conditions such as, increasing the prices, relief on performance security, and demanding advance, was selected as being successful.
- (ii.) The capacity, qualifications and previous experience of the bidder had not been evaluated by the Technical Evaluation Committee in terms of

Guideline 7.10.1 (b) of the Procurement Guidelines. An agreement had been entered into for supplying the entire stock of 800,000 ABH Forms by 31 January 2018 at the cost of Rs. 6,387,500. Nevertheless, only 208,000 ABH Forms had been supplied even by 02 March 2018; hence, with a view to minimizing the dearth, 100,000 ABH Forms had been printed without following the procurement procedure at a cost of Rs. 799,000 through the institution to which the printing order of the preceding year had been awarded.

(f) Project for Obtaining Photographs and Fingerprints of the Members (Phase 3)

The first and second phases of the said project had been implemented in the years 2008/2009 and 2010/2011 respectively with the objective of providing the members with efficient and reliable service. The third phase thereof had been scheduled to be commenced in the year 2015. The following observations are made in that connection.

- (i.) The first and second phases of the said project had not been launched under a proper plan by carrying out a Cost-Benefit Analysis and a Feasibility Study. A project report and a project plan relating to the third phase of the project had not been made available to the Audit. Moreover, evidence to the effect that the progress of first and second phases had been reviewed prior to implementation of the third phase, was not made available to the Audit.
- (ii.) Specifications had been prepared to implement the third phase of the project under 02 components. It had been scheduled to purchase the relevant instruments under component I whereas collecting photographs and fingerprints, data capture or rather, had been scheduled in component II. A bidder had been selected to implement both components of the third phase. Accordingly, some of the instruments had been purchased on 15 May 2017 incurring a sum of Rs. 16,557,085, but the project could not be implemented due to reasons relating to phase II of the project such as, failure to prepare estimates properly, failure to evaluate the capacity of bidders by identifying evaluation criteria, failure to sign memorandum of understanding in

regard to the matters agreed upon at the discussions, and failure to enter into an agreement relating to implementation of the project. The said instruments remained idle at the stores even by 31 May 2018.

- (iii.) According to the bid documents, 90 per cent of the payment should be made after the supply, installation, and implementation of the instruments whereas the balance 10 per cent of the payment would be made after the collection of photographs and fingerprints of the 1000 members. However, the total value of the instruments amounting to Rs. 16,557,085 had been paid in full although the instruments had only been supplied.
- (iv.) As provision had been made without identifying the actual requirement and preparing plans, an amount ranging from 85 per cent to 100 per cent of the provision made through annual estimates for the said project relating to the period 2015 – 2017, had been transferred to other Objects whilst 15 per cent – 100 per cent of the provision had been saved.
- (v.) As the Technical Evaluation Committee had not comprised of a subject specialist in terms of Guideline 2.8.1 (b) of the Procurement Guidelines, the assistance of an expert in the subject had to be obtained to examine the compliance and quality of the instruments (goods and software).
- (vi.) A bid evaluation report should have been prepared by the Technical Evaluation Committee in terms of Guideline 7.11.1 of the Procurement Guidelines. However, it had not been done so.

6.3 Internal Audit

An independent Internal Audit Unit had not been established in the Employees' Provident Fund. The internal audits of the Employees' Provident Fund Division of the Central Bank of Sri Lanka had been carried out through an external audit firm. The approved cadre and actual cadre of the Internal Audit Unit of the Department of Labour that administered the Fund, were 14 and 08 respectively. Due to inadequacy of actual cadre, given the 57 regional offices of the Department and the sheer number of

transactions taking place, it was observed that attention had not been brought sufficiently on the auditing of the Fund. Even though directives had been issued continuously since the year 2013 at the meetings of the Public Accounts Committee that internal audit of the Department be strengthened, action had not been taken accordingly to carry out audits by attaching an adequate staff.

6.4 Recommendations of the Public Accounts Committee and Current Progress

Directive No.

Recommendation and Current Progress

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| <p>a) No. 08, dated 26 February 2016.</p> | <p>Instructions had been issued that a proper plan should be formulated for the 10 ensuing years with the corporation of all the institutions in order to proceed with the activities of the Employees' Provident Fund. However, it was revealed at the meetings held with the participating 07 institutions that it was not possible to link all the institutions for the implementation of 10 year plan of the Employees' Provident Fund owing to the fact that the databases, benefit schemes, and Information Systems of different institutions could not be interlinked as each institution had been established with different objectives.</p> |
| <p>b) No. 09, dated 26 February 2016.</p> | <p>In order to improve the Information Technology processes of the Department, instructions had been issued that a report on the possibility of developing a single computer software in conjunction with the Department of Labour and Central Bank of Sri Lanka, be presented to the Committee before 23 March 2016. Accordingly, the Audit Department was informed by the Deputy Governor of the Central Bank of Sri Lanka that an agreement had been entered into for providing technical assistance through the Capital Market Development Programme implemented under the loans granted to the Government by the International Development Bank.</p> |

7. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Commissioner General of Labour and Governor of the Central Bank of Sri Lanka from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls

Observation

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| a) Crediting Contributions to the Members' Accounts. | Failure to prepare a methodology to credit the contributions that had not been credited to the personal accounts of the members of the Fund, to the relevant accounts immediately, and promptly pay the retained benefits to the relevant parties. |
| b) Management of the Investments. | Failure to optimally invest the funds ensuring higher benefits for the members. |
| c) Internal Audit. | Failure to recruit a qualified and adequate staff for internal audit and carrying out internal audits covering all the areas. |
| d) Preparation of Bank Reconciliation Statements. | Failure to take action to settle the account balances that had not been settled over extensive periods. |
| e) Procurements. | Failure to make procurements in compliance with Procurement Guidelines. |

H.M. Gamini Wijesinghe.

Auditor General.



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Auditor General's Department



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