

Public Service Provident Fund - 2019

1.1 Disclaimer of Opinion

The audit of the financial statements of the Public Service Provident Fund for the year ended 31 December 2019 comprising the balance sheet as at 31 December 2019 and the statement of income and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 24(1) of the Public Service Provident Fund Ordinance (Cap.621) and with provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Fund. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my disclaimer of opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible in assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Fund, has no realistic alternative to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Section 16(1) of the National Audit Act No.19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Fund.

1.4 Auditor's Responsibility for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following:

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with the applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non- compliance with Sri Lanka Public Sector Accounting Standards

Non- compliance with the reference to particular Standard	Comment of the Management	Recommendation
Even though Income and Expenditure should be brought to account on accrual basis in terms of Paragraph 7 of the Sri Lanka Public Sector Accounting Standard 01, disclosures had been made that the money received to the Fund had been brought to account on cash basis under the Accounting Polices 2.4 (c) (ii) including in the Annual Accounts, contrary to that provision.	Had been agreed with the matter.	Action should be taken in terms of Sri Lanka Public Sector Accounting Standards.

1.5.3 Unexplained Differences

Audit Observation	Comment of the Management	Recommendation
Unidentified balances from the debits and credits made to the Bank Account of the Fund by various Public Institutions by Monthly Summaries had been	The balance amounted to Rs.24,517,312 as per the Fraudulent Debit Schedule as at 31 December 2019 and, the balances are indicated as a sum	Action should be taken to reconcile the balances of the Adjustment Account annually, separately and to be accounted in accurate bank

included into an Adjustment Account until they are being settled and even though the Debit Balance of that Account had been a sum of Rs.29,807,957 as at 31 December 2020, a difference of Rs.5,290,644 was observed on, that balance being a sum of Rs.24,517,312 as per the Schedule relating thereto.

of Rs.641,083 from 1 to 3 years, a sum of Rs.22,205,371 from 4 to 6 years, a sum of Rs.1,543,715 from 7 to 10 years and a sum of Rs.127,142 for a period of over 11 years, respectively.

It is informed to Institutions to settle the Debit Balances from time to time by Letters and, favourable responses are not being shown by many Institutions. The attention of the Management Committee as well has been paid in this connection and the attention has been paid to follow a proper procedure relating thereto, through the Department of Public Accounts. A value is being indicated from several years in the Schedule maintained by the Fund for the confirmation of these balances and that value does not match with the Opening Balance of our Adjustment Account. Action is continuously being taken to find the relevant information that are still stated under the unrectified Debit balances on, information whether these balances had not being settled, is not being available.

Accounts.

1.5.4 Documentary Evidences not made available for Audit

Item available	Amount	Evidence not made available	Comment of the Management	Recommendation
	Rs.			
Mandatory Contribution Money Account, Volunteer Contribution Money Account, Government	68,246,168,683	Even though an Online Database System had been introduced for maintaining information of the Contributors of the	It is said in the Receipt Register the money sent by each Public Institution as 8% and 12%, to the Public Service	The accuracy of the balances should be confirmed by maintaining a proper Database System on

Contribution
Money Account

Fund, individual Fund and, in the Individual
Accounts had not Payments Register, by Accounts of the
been maintained Register, by Contributors who
relating to the separating the have contributed
Contribution payments as 8% under the Fund.
Money Balances and 12%.
stated in the The Government
Balance Sheet as Contribution
at the end of the Money Accounts
year under review in the Mandatory
due to not properly Contribution
implementing the Money Account
above Database and the Volunteer
System. Contribution
Money Account
balance had been
calculated by
deducting the
payments from the
receipts of the year
to the Opening
Balance of the
year and by adding
the Profit
Appropriations of
the year.

1.6 Non- compliance with Laws, Rules, Regulations and Management Decisions

The following observations are made.

Reference to Laws, Rules and Regulations	Non- compliance	Comment of the Management	Recommendation
Public Service Provident Fund Ordinance 1942 (Cap.621)			
(i) Sections 16(b) and 20(b)	Even though the bonus money credited to the Account of the Contributor by the Government with the interest received related to the	Government Contribution Money and the Interest thereto payable under Sections 20 and 16 of the Public Service Provident Fund Act had been	Action should be taken to credit the unpaid Government Contribution Money and the Interest to the Consolidated Fund.

Government Bonus, settled up to the year should be repaid to 2018. Action is being taken to settle the Consolidated Fund, by the Fund on amount payable in the the instance where year 2019, in the year either a Contributor 2020. is being interdicted on the reasons of inefficiency, misbehavior or on the instance where a Contributor of the Fund is being appointed to a post that is entitled to pensions in the Public Service, the Government Bonus and the Interest amounting to Rs.318,660,995, unpaid, relating to the year 2019 remained being accrued.

(ii)Section 25

As soon as practicable after the close of each financial year, the Director General of Pensions shall inform contributors of the balances in their Accounts as at 31 December. However, action had not been taken accordingly.

Attention has been drawn to introduce an information system for the Public Service Provident Branch and registration of membership numbers is already done through an online system. Formulation of a methodology to inform the account balances of new members as at 31 December, has delayed due to various practical issues. Even though the details of cheques of the members should be included in the system

Action should be taken in terms of the Section of the Ordinance.

by the institutions as per the Circular 2/2017, action has been taken so far by the institutions to send those details through a format prepared at their discretion. As such, instructions have been directly given through the awareness letters to get the active participation of institutions for the said process.

2. Financial Review

2.1 Financial Results

The operations of the year under review had resulted in a surplus of Rs. 6,520,628,550 as compared with the corresponding surplus of Rs. 6,779,940,754 in the preceding year, thus observing a decrease of Rs.259,312,204 in the financial result. The decrease in the interest income from investments by Rs.257,693, 038 had been the main reason for the said decrease.

3. Operating Review

Management Inefficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
There were 592 unpaid applications as at 01 January 2019 and the number of applications submitted for obtaining benefits by members of the Fund during the year stood at 6,435. Out of them, payments of Rs.708,893,693 had been made for 5,070 applications by 31 December of the year under review while 434 applications had been rejected.	A number of 6,435 applications had been received in respect of payments during the year 2019 and 5,070 applications out of the above had been paid. Approximately 700 applications have been received during one month from July to October of the year. Even though the total number of applications had exceeded 6000, the officers who were attached to prepare the files for payments in the institute have not been	Action should be taken to give instructions to minimize shortcomings existing in applications received from institutions and thereby make arrangements to pay for applications without delay.

increased. Applications with shortcomings for which the letters have been sent, were included in the said applications. As such, payments could not be made at once for all applications due to shortcomings existed in files, submitted for obtaining benefits. However, necessary action has already been taken to maximize the number of payments made as compared to the number of applications received to the Branch.