

## **Public Service Provident Fund – 2021**

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### **1. Financial Statements**

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#### **1.1 Disclaimer of Opinion**

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The audit of the financial statements of the Public Service Provident Fund for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and Income and expenditure account 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 provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported 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 paragraph 1.5 of this 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**

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I expressed disclaimer opinion 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 opinion.

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

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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 determine 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 for assessing the fund's stability 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 intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

As per Sub 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 of the Fund.

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

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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 judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risk 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 audit 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 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 the 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 audit report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtain up to the date of my audit 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 event 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 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 Audit Observations regarding the preparation of 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 reference to particular Standard	Management Comments	Recommendation
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Although income and expenditure are to be accounted on accrual basis in terms of Public Sector Accounting Standards 01, the compulsory contribution amounting to Rs. 378,828,149 received during the year had been brought to accounts on cash basis.	No answer provided	To act according to the standards
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### 1.5.3 Accounting Deficiencies

The following observations are made.

Audit Observation	Management Comments	Recommendation
(a) According to the accounts notes. 3.8, the accrued expenses were Rs.14,904,137, but it was shown as Rs.14,554,137 in the financial statement, As a result expenses and current liabilities were understated by Rs.350,000	I accept the observation	Accrued expenses should be calculated correctly

- (b) The Audit fees payable On 31<sup>st</sup> December of the year under review should be Rs.1,055,000, but due to the financial statements showing Rs.1,153,760, the Audit fees payable were overstated by Rs. 98,760.
- Annually Audit fee Accrued expenses payable are accounted on should be calculated on accrual basis and I correctly emphasize that due to the delay in receipt of bills, Audit fee have to be accounted for on an accrual basis.

#### 1.5.4 Documentary Evidences not made available for Audit

Item available	Amount Rs.	Evidence not	Management Comment	Recommendation
(a) The membership register was not submitted for audit to confirm the number of initial members of the fund, the number of newly added members in the year under review, the number of members who paid and withdrew during the year, and the number of members of the fund as of the last date. As a result, as at 31 <sup>st</sup> December 2021, the balance of the compulsory contribution account was Rs.31,284,678,563, the balance of the voluntary contribution account was Rs.48,191,933 and the balance of the government contribution account was Rs.48,313,024,475 could not be distinguished according to their ownership.	79,645,894,971	Individual balance schedule	Used to confirm the membership of a fund , to use balances in previous financial statements / closing accounts. Members who obtain numbers through the online system introduced from the year 2017 are considered as new members who have joined the fund and the number of members who have paid every year is considered as the number of members who have withdrawn. The balance of Compulsory Contribution Account, Voluntary Contribution Account and Government Bonus Account is calculated by deducting payments from receipts during the year to the opening balance of the year. To verify this balance, it is	To ensure the correctness of the balances by maintaining a formal data system of the individual accounts of the contributors.

<p>(b) In the year under review, Rs.85,016,374 had been paid as government contributions and the payment had been made only based on the confirmation of the working institution without verifying whether the funds actually received from the beneficiaries.</p>	<p>85,016,374</p>	<p>Individual balance schedule</p>	<p>essential to maintain single accounts and for that it is necessary to maintain the system which has been introduced at present. I emphasize that it is difficult to account for the 500-1000 monthly cheques received by the Public Service Fund and the information of over 1000 members.</p> <p>Continuous awareness is being given to the institutions to send the government contribution payment check details online and others who are not doing so. I emphasize that it is difficult to account for the 500-1000 monthly checks received by the Public Service Fund and the information of over 1000 members using the current minimum number of employees and resources (information technology and number of computers).</p>	<p>To ensure the correctness of the balances by maintaining a formal data system of the individual accounts of the contributors.</p>
<p>(c) The monthly account summaries had reconciled the debits and credits made to the Fund's account by various government agencies to the adjustment account until the</p>	<p>29,811,315</p>	<p>schedules</p>	<p>The opening balance of the adjustment account is Rs. 29,811,315 in the schedule maintained by the fund to prove</p>	<p>Balances should be identified and settled.</p>

unrecognized balances were settled. As at 31st December 2021, the unrecognized adjustment account had an accumulated balance of Rs.29,811,315 over the years. Due to non-availability of a detailed schedule of how the balance was prepared, it could not be verified satisfactorily during the audit.

it shows a figure from several years, but which does not match the balance in our adjustment account. It is expected that suitable measures will be taken to remove these wrong debits through the management committee in the future.

**2. Financial Review**  
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**2.1 Financial Results**  
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The Operating result of the year under review amounted to a surplus of Rs. 6,570,594,169 and the corresponding surplus in the preceding year amounted to Rs. 7,627,899,989. Therefore deterioration amounting to Rs. 1,057,305,820 of the financial result was observed. The reason for the deterioration is mainly due to the decrease in interest income on investment by Rs. 1,057,068,327.

**3. Operational Review**  
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**3.1 Management Inefficiencies**  
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The following observations are made.

<b>Audit Observation</b> -----	<b>Management Comments</b> -----	<b>Recommendation</b> -----
(a) The number of applications submitted by the members of the fund for benefits was 987 as at 1 <sup>st</sup> January 2021, and 5059 applications had been received for the year 2021. Altogether Out of 6046 applications, payments had not been made for 1363 applications by December 31 of the year under review.	The increase in number of applications compared to the year 2020 was due to the fact that COVID 19 epidemic, officers are called to work on shift system from time to time and reduced attendance of officials, transportation difficulties. This number also includes applications less than 3 months old for which letters of deficiency have been sent and not being able to make payments until the relevant reply letters are received, police applications and civil defences applications received by the department at the same time In 2005, the absorption of police sub-services into regular service took place and civil defence officers have become pensioners on 23.04.2015 and the membership has been abolished on that day. As a result, a large number of applications simultaneously with a huge time delay to get the Public Service Provident benefits.	Prompt payment of applications should be done.