

## **Sri Lanka Social Security Board - 2013**

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The audit of Financial Statements of the Sri Lanka Social Security Board for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, 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 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 24(3) of the Sri Lanka Social Security Board Act, No.17 of 1996. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2) (c) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector 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**

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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 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 judgment, including the assessment of 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 Board's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects 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 Sri Lanka Social Security Board as at 31 December 2013 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**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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In preparing the statement of financial position, current and non-current assets and current and non-current liabilities had not been presented broadly in order of liquidity, in terms of paragraph 70 of the Sri Lanka Public Sector Accounting Standard No. 01.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) Action had not been taken to revalue 368 linemen of fixed asset which had been fully depreciated by 31 December 2013 and to take those values into books.
- (b) Motor vehicle repair expenses totaling Rs.394,250 had been brought to account as capital expenditure, instead of being accounted as recurrent expenditure.
- (c) Even though the Board had acquired a new building on 27 February 2013 and capitalized, a sum of Rs.286,033 spent on the building which had been taken on rent basis and handed over at-present had been capitalized as fixed assets and it had been depreciated for the entire year.

#### **2.2.3 Transactions not Supported by Adequate Authority**

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The following observations are made.

- (a) Without making financial provision and without following the procurement process, a building to operate the Head Office of the Board had been purchased at Rs.195 million from the Pensions Fund in excess of the Government valuation of Rs.165 million.
- (b) Although the new computer system had been set up by incurring an expenditure of Rs.23,947,068 from the Pensions Fund, the Government Procurement Procedure had not been followed in purchasing the system. Similarly, the recovery of contributions and accounting thereof had lieu delayed for several, years by 31 December 2013 and as the new computer system does not have facilities to input information relating to the new schemes introduced by the Board, objectives expected to be fulfilled with the establishment of the computer system had not been achieved.

## 2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following non-compliances were observed.

Reference to Laws, Rules, Regulation etc,	Non-compliance
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 387	The paying officer should always ensure that the bank balance is sufficient to meet all his payments made by cheques. However cheques valued at Rs.4,262,296 had been written in excess of the balance in a current account.
(ii) Financial Regulation 396	The payee of each outstanding cheques should be addressed as soon as possible after the expiry of the period of validity, requesting him to return the cheques for revalidation. Without taking such action cheques valued at Rs.151,712 and Rs.641,115 issued in respect of pensions which had lapsed over 6 months had been taken to accounts as income.
(iii) Public Enterprises Circular No. PED/25 of 29 July 2004	The approval of the Minister of Finance had not been obtained for the investment of Rs.1,622,672,141 as at 31 December 2013.

## 3. Financial Review

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### 3.1 Financial Results

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According to the financial statements presented, the operation of Funds of the Board for the year under review had resulted in a surplus of Rs.9,471,426 as against the deficit of Rs.18,535,954 for the preceding year thus showing an improvement of Rs.28,077,380 in the financial results as compared with the preceding year. Earning a profit of Rs.2,272,800 from sale of Motor vehicles and other capital assets, increase of differed revenue by Rs.20,121,558 and the decrease of rent by Rs.8,545,004 due to the purchase of new building had been the reasons for the improvement.

### 3.2 Analytical Financial Review

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The total assets in the previous year amounting to Rs.1,763,080,924 had increased to Rs.1,985,772,130 or by 13 Percent during the year under review while the Funds amounting to Rs.1,698,821,952 in the previous year had increased to Rs.1,948,247,878 or by 15 per cent during the year under review. Further, the total liabilities in the previous year amounting to Rs.64,258,972 had decreased to Rs.37,524,252 or by 42 per cent in the year under review.

According to the financial statements presented the current ratio of 4:1 in the previous year had expanded to 5:1 in the year under review. As such due to further increase in investing funds in the idle current assets, the current assets of the Board had not been managed at the optimum level.

#### **4. Operating Review**

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##### **4.1 Performance**

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The following matters were observed in the examination of performance of the Board for the year 2013.

- (a) Even though it was planned to enrol 25,000 new contributors in the year 2013, only 9,139 contributors had been enrolled. Accordingly, the enrolment had been only 37 per cent of the target.
- (b) Even though the number of contributors enrolled by the Social Security Board by 31 December 2013 to the pension Scheme amounted to 451,783, the dormant contributor of that amounted to 403,714.  
Accordingly the number of active members as at 31 December 2013 had been only about 9 percent.
- (c) The contributions of who had cancelled their membership during the year 2013 withdrawn their contributions of Rs.10,367,065 .Receipt of contributions in the year 2012 amounting to Rs.224,605,425 had dropped to Rs.161,397,701 by 28 per cent in the year 2013.
- (d) Even though the 30 awareness programs had been conducted under 8 Heads under the implementation of awareness programs, the related files had not been properly maintained. It was observed that the awareness about the Board and its Pensions Schemes within Sri Lanka had been at a very minimum level.
- (e) Even though it was planned to make necessary amendments to the act and to issue a new Gazette notification, action had not been taken accordingly.
- (f) Even though the activities such as the provision of facility to ascertain the information of contribution accounts through website established under the development of information system and provision of information to contributors through SMS had been planned, such plan had not been implemented.
- (g) Even though it was planned to establish District Offices in Mannar and Mullaitivu Districts under the decentralization of activities. District Office Development Scheme and enrolling contributors for the Pensions Schemes, action had not been taken as planned.

- (h) Although it was planned under conversion of "inactive contributors to active contributors" scheme to 10,000 active contributors, 52 district level programs had been organized and only 922 had been reactivated, representing only 9 per cent of the plan. Similarly it was planned to send statement of accounts to members, sending active notifications to inactive members, conducting general awareness programs by media, etc, but no action had been taken accordingly.

#### **4.2 Transactions of Contentious Nature**

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In terms of Section 21 (2) (b) and (c) of Part iv of the Social Security Board Act, No. 17 of 1996, all money earned out of contributions, interest on investments and profits should be credited to the Fund of the Board. Nevertheless, the Board had set up funds named such as Social Security Incentives Fund and Social Security Development Fund and the expenditure incurred from those funds on incentive payments made in respect of collection of contribution and the expenditure incurred on awareness programmers had been charged to those Funds.

#### **4.3 Personnel Administration**

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Forty five vacancies had existed as at 31 December 2013. Even though the recruitment process had been initiated, no recruitments had been made up to date.

### **5. Accountability and Good Governance**

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#### **5.1 Corporate Plan**

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Even though a Corporate Plan for the period 2012 to 2016 had been prepared by the Board in terms of paragraph 5.1.1 of Public Enterprises Circular No. PED/12 of 02 June 2003, it had not been prepared in accordance with provisions in paragraph 5.1.2 of that circular.

#### **5.2 Action Plan**

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The Action Plan for the year 2013 had not been properly prepared, in that it had not been prepared in order to achieve the objectives stated in the Corporate Plan and it did not show the activities to be performed periodically by stating the officers responsible for each activity. It had also not been prepared in detail in such manner to achieve the objectives stated in the Corporate Plan.

#### **5.3 Internal Audit**

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An Internal Audit Division had been set up in the Board but the Internal Audit Officer had left the post on 14 February 2013. Thereafter an acting Internal Auditor had been carrying out internal audit work since 15 February 2013.

#### **5.4 Budgetary Control**

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A Budget for the year 2013 had been prepared by the Board in terms of Section 5.2 of Circular No. PED/12 of 02 June 2013 and it had been revised subsequently. However the Board approvals for such revised budget had not been obtained even by February 2014. As such the Budget had not been used as a key control instrument.

**5.5     Tabling Annual Reports**

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The annual reports and accounts should be tabled in Parliament within 150 days after the end of an accounting year in terms of paragraph 6.5.3 of the Circular No PED/12 dated 02 June 2003. Nevertheless the annual report and accounts for the year 2012 had been tabled in parliament even by 20 May 2014.

**6.       Systems and Controls**

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Deficiencies in systems and control observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

- (a)     Enrolment of Contributors and Documentation
- (b)     Recover of Instalments and Accounting
- (c)     Payment of Pensions and Accounting
- (d)     Control over Advances
- (e)     Control of Bank Accounts