

Public Service Provident Fund - 2014

The audit of financial statements of the Public Service Provident Fund for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the income and expenditure account and the 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 24(1) of the Public Service Provident Fund Ordinance (Cap. 621). My comments and observations on the aforesaid financial statements appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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

My responsibility is to express an opinion on these financial statements based on audit conducted in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items and the elements making up the statement of financial position, income and expenditure statement and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

- (a) In purchasing the Treasury Bonds in the year under review, the accrued interest had been overstated by Rs.3,358,082 in the accounts. As a result, the interest income from investments receivable in the year had been overstated by the same amount and the value of investments had been understated by the same amount.

- (b) Unidentified debit and credit balances made due to failure in identifying the receipts of contributions of the Public Service Provident Fund specifically and the erroneous accounting were Rs.7,776,647 and Rs.85,823 respectively. Action had not been taken to settle these balances.
- (c) Instead of being shown the total contributions of Rs. 40,931,305,378 paid by all contributors and the Government share for the Provident Fund as non-current liabilities in the year under review as well as in preceding years, it had been shown as the equity in the statement of financial position.

2.2.2 **Lack of Evidence for Audit**

Transactions could not be satisfactorily vouched or accepted due to non-presentation of the following audit evidence.

- (a) As no action had been taken to maintain the Individual Accounts on behalf of the Fund, the balance of Rs. 16,166,898,487 of the Compulsory Contribution Account at the end of the year could not be examined. In addition to this, outstanding balances receivable from contributors who pay the compulsory contribution to the Fund had not been computed. Even though contributions of Rs. 381,356,811 had been paid to the contributors in the year under review, it could not be satisfied on the accuracy of those payments under the above circumstance.
- (b) As no Individual Accounts had been maintained for the contributors who pay voluntary contributions, the accuracy of the balance of Rs. 24,542,030 in the Voluntary Contribution Account paid at the end of the year could not be confirmed.

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

The following non-compliances were observed.

Reference to Laws, Rules and Regulations	Non-compliance
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(a) Public Service Provident Fund Ordinance (Cap. 621)	
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(i) Section 2(2)	
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	Even though Individual Accounts should be maintained for each contributor, Individual Accounts had not been maintained since the inception of the Fund.
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(ii) Section 25	
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	Even though the Director General of Pensions should inform the contributors in respect of the balances in the members' accounts as at 31 December at the end of each financial year,
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action had not been so taken.

(iii) Section 7(1)

Even though the Government contribution of 12 per cent should be obtained from the Deputy Secretary to the Treasury, action had been taken to obtain the Government contribution from the relevant institutions themselves, in terms of instructions of circular No. 4/2010 of 25 May 2010 of the Director General of Pensions.

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

(i) Financial Regulation 395(c)

A period of 06 months had been delayed for the preparation of the Bank Reconciliation Statement for December of the year under review.

(ii) Financial Regulation 396(d)

Even though a period of 06 months had lapsed after the issue of 03 cheques valued at Rs. 120,206 not presented for payment in the year under review, no action had been taken to settle them.

(iii) Financial Regulation 486

No action in terms of Financial Regulations had been taken in respect of 29 contribution cheques to the value of Rs. 595,258 dishonoured in the year under review.

(iv) Treasury Circular No. 842 of 19 December 1978

A Register of Fixed Assets had not been maintained to examine fixed assets at the net value of Rs.266,835 shown in the balance sheet of the year under review.

3. **Financial Review**

3.1 **Financial Results**

According to the financial statements presented, the financial result for the year under review had been a surplus of Rs.3,227,101,270 as compared with the corresponding surplus of Rs.2,757,264,050 for the preceding year, thus indicating an improvement of Rs.469,837,220 in the financial result as compared with the preceding year.

4. **Operating Review**

4.1 **Management Inefficiencies**

The following observations are made.

- (a) Even though an advice on the money credited to the Fund every month should be sent to the Secretary to the Fund before the fifteenth day of the subsequent month by respective institutions, only a few institutions had sent those advices of the year under review. No adequate steps had been taken by the management to summon such reports.
- (b) Even though the remittance of contributions of 04 officers employed in Ambassador Service had been made for over a period of 06 months, action had not been taken to issue the contribution numbers to the contributors up to now.
- (c) Adequate steps had not been taken to obtain abatement lists from 28 Embassies, Ministries and Departments of the Central Government and District Secretariats in terms of Chapter 08 of Pensions Circular No. 4/2010 of 25 May 2010 of the Director General of Pensions and Chairman of the Provident Fund Management Board.
- (d) Cheques valued at Rs.1,142,503 had been returned in 17 instances due to failure in entering the correct address of the working place to which the contributor belongs, revealed at the audit test check on the payment of contributions in the year under review.
- (e) Even though payments on benefits had not been made due to unavailability of registration numbers, particulars of abatements and confirmation that money had been sent in respect of 05 contributors' applications applied in the years 2010, 2013 and 2014, the payment of benefits had not been made even up to the year under review due to weaknesses in the management of data of the Fund.

4.2 **Identified Losses**

The interest income which could be earned by investing the Government Bonus of 12 per cent had been deprived of due to non-receipt of the said bonus recoverable to the Fund from the Secretary to the Treasury. Accordingly, the Government Bonus of Rs.2,331,391,669 receivable at the date of commencement of the year under review could not be invested at a rate of 8.8 per cent interest of the normal Treasury Bonds computed relating to the year under review, thus indicating a deprivation of an interest income of Rs.205,162,467.

4.3 **Performance**

Out of the applications presented by the members of the Fund for obtaining the benefits, payments for 3,646 applications had not been made by 31 December of the year under review.

5. **Systems and Controls**

Deficiencies observed during the course of audit were brought to the notice of the Director General of Pensions from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Investment
- (c) Budgetary Control