

## **Employees Provident Fund - 2016**

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The audit of Financial Statements of the Employees' Provident Fund for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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(1) 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**

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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**

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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 Auditing Standards of Supreme Audit Institutions (ISSAI 1000 - 1810). Those Standards require that, I comply with the 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.

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 Employees' Provident Fund as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **2.2 Comments on financial statements**

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#### **2.2.1 Sri Lanka Accounting Standards**

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As the useful life of non-current assets had not been annually reviewed in terms of Section 51 of the Sri Lanka Accounting Standard 16 but fully depreciated as at 31 December 2016 and further used, action had not been taken to revise the estimated error in fixed assets totalling Rs.229,358,373 existed in the Department of Labour and the Employees Provident Fund Division of the Central Bank of Sri Lanka in terms of Sri Lanka Accounting Standard 08.

#### **2.2.2 Accounting Policies**

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Even though, the intangible assets should be amortized within 2 years according to the accounting policy of the Fund. Contrary to that, those assets had been amortized over the period of 4 years.

#### **2.2.3 Accounting Deficiencies**

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The following observations are made.

- (a) In lieu of depreciating non-current assets used for operating activities of the Fund on a systematic basis in terms of useful life, depreciation had been calculated at 20 per cent of the total revenue expenditure incurred on vehicle repairs during the period 2012 to 2016 under Object No.221-2-4-2003 of the Labour Department and as such, the depreciation of vehicles in the year under review had been overstated by Rs.1,620,832.
- (b) Without taking action to rectify or to settle the transactions totalling Rs.517,935,339, including cash deposit of Rs.16,021,950 not updated during the period from 2009 to 31 December 2016 relating to 4 bank accounts and the shortages of receipt vouchers amounting to Rs.12,555,622, it had been shown in the bank reconciliation statements continuously.
- (c) Even though, a payment of Rs.5,190,718 had been made in the year 2017 in respect of accounted commitments incurred relating to the year 2016, only a sum of Rs.2,341,937 had been provided therefor in the financial statements as at 31 December 2016 and as such, the expenditure of the year under review and the accrued expenses had been understated by Rs.2,848,781.

#### 2.2.4 Unexplained Differences

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In the comparison of balances of plant and machinery, furniture and office equipment, computers and computer software totalling Rs.728,984,200 as at 31 December 2016 shown in the financial statements with the balances shown in the relevant schedule a difference of Rs.287,276,341 was observed.

#### 2.2.5 Lack of Evidence for audit

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Evidence indicated against each item of the following accounts was not furnished to audit.

<b>Item of Account</b>	<b>Value</b>	<b>Evidence not made available</b>
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	Rs.	
(a) Balance of 2 bank accounts	6,810,422	(i) Bank Reconciliation Statements. (ii) Bank Certificates
(b) Accounts receivable balances "Mehewara Piyasa"	427,147,000	} Confirmation of Balances.
(c) Imprest of the Commissioner General of Labour	480,290,000	
(d) Motor Vehicles	100,395,770	} Detailed Schedules.
(e) Accumulated Depreciation – Motor Vehicles	58,490,743	

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

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Instances of non-compliance with laws, rules, regulations and management decisions are given below.

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. Financial Regulation 395 (b) and (c)	There was a difference of Rs.1,423,861,794 between the balance as per cash book as at 31 December 2016 relating to a bank account of the Fund and the bank balance confirmation. Those balances had not been reconciled and had not been prepared the bank reconciliation statements from January to December 2016.

- (b) Section 8.7 of the Public Enterprises Circular No.PED/12 of 02 June 2003 and the Public Enterprises Circular No.03/2016 of 29 April 2016. Payment of “Pay As You Earn” (PAYE) Tax on employment of the officers of the Central Bank of Sri Lanka attached to the Employees Provident Fund had not been recovered from the relevant officers and a sum of Rs.17,571,467 had been paid as their PAYE Tax by the Fund in the year under review. This matter had been discussed at the Committee on Public Accounts on 26 February 2016. Accordingly, it was informed by the Committee that a correct methodology be prepared being discussed with the Secretary to the Treasury in compliance with the instructions of the Budget in the year 2016 and Public Finance Circulars and update it. However, action had not been taken accordingly even by the end of June 2017.
- (c) Public Finance Circular No.05/2016 of 31 March 2016. The Board of Survey in respect of plant and machinery valued at Rs.176,748,000 existed in the Employees Provident Fund Division of the Central Bank of Sri Lanka had not been conducted and its report had not been submitted to the Auditor General for the year 2016.

### **3. Financial Review**

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#### **3.1 Financial Results**

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The financial result of the Fund for the year under review had been a net profit of Rs.175,926,965,000 as compared with the net profit of Rs.156,937,279,000 for the preceding year. Accordingly, the net profit for the year under review had increased by Rs.18,989,686,000 as compared with the preceding year. Increase of interest income by Rs.22,430,346,000 had mainly attributed to this increase.

In analyzing the financial results for the year under review and the preceding 4 years, the financial result of the year 2012 had been a net profit of Rs.111,828,720,000 and it had continuously improved and become a sum of Rs.175,926,965,000 in the year 2016. After being considered the employees remuneration, depreciation on non-current assets and the income tax, the contribution of Rs.121,084,004,000 in the year 2012 had improved up to Rs.192,481,767,000 in the year 2016.

## **4. Operating Review**

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### **4.1 Performance**

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This Fund had been established under the Employees Provident Fund Act No.15 of 1958 with the objective of Providing retirement benefits to employees serve in the Private Sector and Semi Government Sector.

The following observations are made in respect of achieving such objectives.

- (a) According to the Report of the Central Bank of Sri Lanka, out of the total number of employees reported as the total employment in the private and semi-government sector amounting to 3,682,695 by the end of the year 2016, the active number of members of the Employees Provident Fund amounted to 2,400,000 or 65 per cent. The number of employees who contributed to the other approved Provident Fund had been 11 per cent only and as such it was observed that the balance 24 per cent only had not contributed to any Provident Fund.
- (b) According to the report of the Central Bank of Sri Lanka, it was reported that the total number of active members in the Employees Trust Fund Board by the end of 2016 and the number of employers who pay contributions to the Fund amounted to 2,500,000 and 77,842 respectively. However, those figures stand at 2,400,000 and 73,973 in the Employees Provident Fund, representing less than the ETF. Accordingly, the Employees Provident Fund had failed to register 100,000 employees and 3,869 employers.
- (c) The total worth of the Fund as at 31 December 2016 amounted to Rs.1,841.5 billion, indicating an improvement of 11 per cent as at 31 December 2015. However, the following observations are made in respect of contributors Fund.
  - (i) A sum of Rs.10,979 million received from court orders given on court cases filed against the employers who had not paid EPF contributions had not been credited to the members accounts even by 31 December 2016. This balance had existed by the end of the years 2014 and 2015 as Rs.6,898 million and Rs.8,142 million respectively. Even though, a sum of Rs.8,322.5 million received to this account during the year 2016 only a sum of Rs.5,485.5 million had been settled, and the unsettled balance money had been annually accumulated to this account and an age analysis was also not made available for this accumulated balance. In terms of the recommendation No.7 (ii) of the Committee on Public Accounts dated 06 February 2013, the Chief Accounting Officer informed the Committee that action being taken to introduced a Computer Software in order to expedise the settlement of this money but it was observed that the unsettled balance had been increased annually.

According to the explanation of the Deputy Governor of the Central Bank of Sri Lanka, he stated that a sum of Rs.278 million had been credited to the members account by 3,497 'C' reports, only under the proportionate method commenced since 01 September 2015.

- (ii) Contributions received to the Fund had been retained in a general deposit account in the Department of Labour until that money was settled. Accordingly, a sum of Rs.240,214,000 was added during the year 2016 and a sum of Rs.107,753,000 was settled and the balance to be further settled amounted to Rs.356,422,000 as at 31 December 2016. Similarly, the balance of the more or less contribution account which had not been credited to the members' account by the end of the year 2016 amounted to Rs.1,538,465,000. An age analysis for this balance was not made available for audit. Even though, the Committee on Public Accounts had discussed about this balance at its meetings continuously since the year 2013 and ordered to settle it without delay, no action had been taken accordingly.

According to the explanation of the Deputy Governor of the Central Bank of Sri Lanka, this money could not be credited to members accounts until the sending of rectifications by employers under the existing provisions and the contributions transferred from more or less account to the members accounts in the year 2016 amounted to Rs.679,000,000.

- (iii) Even though, the relevant benefits requested by the members of the Fund had been calculated, those benefits retained without being paid to the beneficiaries as per instructions of the Commissioner of Labour as unclaimed benefits in the members Fund amounted to Rs.596,552,000 as at 31 December 2016. The Fund had failed to furnish an age analysis for these balances. It was observed that the attention of the Fund had to be paid to formulate a system to settle these balances promptly as more balances would be added to this account than the balances being settled.
- (d) In terms of Section 14 of the Employees Provident Fund Act No.15 of 1958, an interest, not less than 2 ½ per cent of the revenue earned by investing the money of the Fund should be credited to each member's account annually, as at 31 December of the relevant year. The interest percentage so paid in the year 2016 and prior years had decreased gradually from the year 2009 to 2016 at 13.75 per cent to 10.5 per cent and it had remained unchanged at 10.5 per cent in the previous 2 years and the year under review. However, as the Fund had not earned a sufficient profit, even to pay an interest of 10.5 per cent, a sum of Rs.250,000,000 had been obtained from the profit equalization reserve in the year under review.
- (e) As a whole investments in government securities which was the main source of investment portfolio during the year 2016 had dropped as stated in paragraph 4.2.1 (a) of this report and as such there was a decreasing tendency in earning investment income of the Fund at long run, in the ensuing years. As a result, it cannot be ruled out that there would not be a risk that the possibility of maintaining the payment of more than 10.5 per cent interest to the members of the Fund, as paid in the previous years, in terms of Section 14 of the Employees Provident Fund Act No.15 of 1958.

- (f) In terms of Section 23 of Employees Provident Fund Act No.15 of 1958, the total amount available in favour of an individual member of the Fund should be paid as soon as possible to that member. Nevertheless, it was observed at a test check that 146 normal benefit applications valued at Rs.29,601,872, unpaid, though periods ranging from 01 year to 15 years from the date of application had elapsed and 30 death benefit applications valued at Rs.7,759,608 had existed as at 30 June 2017.

## 4.2 Operating Activities

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### 4.2.1 Investments in Treasury Bonds

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The following observations are made.

- (a) The primary market investments in Treasury Bonds which is treated as a main investment source of the Fund and less risk in the year 2016 had abnormally decreased by 50 per cent as compared with the year 2015 and the Fund had completely departed from secondary market investments after May 2016. As such the total investment in Treasury Bonds amounting to Rs.318 billion in the year 2015 had decreased to Rs.183 billion or 42 per cent by the end of the year 2016. Details are given below.

	Primary market investment			Secondary market investment			Total investments in Treasury Bonds
	First Half Year	Second Half Year	Total Investment	First Half Year	Second Half Year	Total Investment	
	Rs.Bn	Rs.Bn	Rs.Bn	Rs.Bn	Rs.Bn	Rs.Bn	Rs.Bn
2015	110	124	234	17	67	84	318
2016	57	60	<u>117</u>	66	-	<u>66</u>	<u>183</u>
Decrease			117			18	135
Decrease Percentage			50%			21.4%	42%

According to the comments of the Deputy Governor of the Central Bank of Sri Lanka, it was informed that the value of matured bonds had been at a low level in the year 2016 as compared with that of the year 2015 and decrease of net members receipts extremely had mainly attributed to decrease the bond investments.

- (b) In the issue of Rs.40,000 million bonds on 29 March 2016, rendition of quotations to Primary Market by the Fund had been at a low level. Particulars are given below.

ISIN Number	Total amount offered	Effective rate	Total value quoted	Total value of bonds accepted	Employees Provident Fund			
					Value quoted (face value)	Total value of bonds accepted (face value)	Percentage quoted	Value of prices of bonds accepted
	Rs. million	%	Rs. million	Rs. million	Rs. million	Rs. million	%	%
LKB00520E014	10,000	-	27,022	10,272	-	-	-	-
LKB01025C157	10,000	13.35	36,915	21,475	1,000	1,000	10	4.66
LKB01226F014	10,000	13.45	32,560	17,010	500	500	5	2.94
LKB01530E152	10,000	13.65 13.70	45,925	28,975	1,000	1,000	10	3.45
<b>Total</b>	<b>40,000</b>		<b>142,422</b>	<b>77,732</b>	<b>2,500</b>	<b>2,500</b>	<b>6.25</b>	<b>3.22</b>

The following observations are made.

- (i) In considering the total amount offered by the Central Bank of Sri Lanka at the above bond issue and the total amount of bonds accepted, the percentage of quoted prices by the Fund had been as low value as 6.25 per cent and 3.22 per cent respectively. Accordingly, the contribution of the Fund at the above bonds issue had been at a minimum level.
- (ii) According to the recommendation of the middle office of the Fund Management Division, out of the estimated total cash balance of Rs.8,800 million as at 01 April 2016 on which bonds had been purchased, it was recommended to use Rs.4,000 million for the above bond issue, only a sum of Rs.2,173 million thereof had been actually invested and as such the value of actual investment made by the Fund at the above bond issue had been 50 per cent of the recommended cash balance.
- (iii) According to the daily cash flow statement as at 01 April 2016 of the Fund, a sufficient surplus money amounting to Rs.12,076 million had existed in the Fund to purchase 30 per cent of the total amount offered by the Central Bank of Sri Lanka (Rs.40,000 million) but only a sum of Rs.2,173 million had been allocated to purchase Treasury bonds at the above auction, representing a



minimum percentage of 5 from the total amount offered had been utilized. Accordingly, the Fund had been deprived of the opportunity of getting more benefits by investing money in the primary market under the high effective rate of interest over 12 per cent by the Management.

According to the comments of the Deputy Governor of the Central Bank of Sri Lanka, it was informed that the surplus money of Rs.12,076 million available as at 01 April 2016 was not only for investments but also for the payment of benefits until the collection of money to the Fund, to incur expenditure on the administration of the Fund and other expenses, reimbursement and the cash balance for the use of other alternate investments and the amount of money predicted by the Fund to be invested was only Rs.8,800 million as at that date.

- (iv) In terms of paragraph 4.2.1 (b) (iii) above, despite it was enable to purchase bonds under high effective rate of interest at the Primary Auction, lesser number of bonds had been purchased at the above bond issue and the balance of Rs.9,903 million had been invested in the repurchase agreements under the low interest rates of 6.5 per cent to 8 per cent. Those transactions had been carried out by the Fund through the other 5 primary dealers, out of which the highest percentage of 61 had been re-purchased through a private entity under contention.
- (c) Furthermore, during the period after the 1<sup>st</sup> of April 2016, up to 12 April 2016 daily cash receipts had been invested in the repurchase agreements with one day's maturity under very low rate of interest without being invested in purchasing bonds through the Secondary Market or other effective source of investment. Of these re-purchase investments, a considerable percentage (between 61 to 94 per cent) had been used for the re-purchase from the above private entity under contention.
- (d) Despite there was an ability to purchase Treasury Bonds from the primary market at a higher rate of interest, disregarding that, a large amount of funds had been used to repurchase in a private entity in dispute and as a result, the opportunity of giving more benefits to the members of the Fund had been deprived of and it had been given to a private entity which had been questioned by a special Presidential Commission as well, appointed for that purpose.
- (e) At the above Treasury bond issue the very little amount of money of the Fund had been utilized and the balance money had been continuously invested in repurchases and such Treasury bonds had been purchased from the Secondary Market during the period 12 April to 25 April 2016. An extremely small amount from the bond bearing International Securities Identification No.LKB01530E152 (ISIN) had been purchased from the Primary Market and bonds valued at Rs.6,373 million from the above bond had been purchased at the effective rate less than the Primary Market that was at the rates between 12.42 per cent and 12.5 per cent. However, effective rates between 13.65 per cent and 13.70 per cent had been in the Primary Market therefor. Similarly, bonds valued at Rs.93 million had been purchased from the Secondary Market at an effective rate of 12.2 per cent which was less than the effective rate of 13.45 per cent in the Primary Market for the Bond bearing ISIN No.LKB01226F014.

According to the comments of the Deputy Governor of the Central Bank of Sri Lanka, it was informed that the Fund had sold Treasury Bonds, the face value of which was Rs.8,050 million in the Secondary Market to purchase Treasury Bonds in the Secondary Market during the period from 12 April to 25 April 2016.

(f) The following observations are made in respect of the participation in the Treasury bonds auction in the Primary Market by the Employees Provident Fund during the year 2016 and its success.

(i) There were 62 instances of successful batches offered for Treasury Bonds by the Department of Public Debts for auctioning in the year 2016, out of which the Fund had completely been away from sending quotations in 16 instances therefrom.

(ii) In forwarding quotations for Treasury Bonds by the Fund in 19 instances, it had not been done on past experience and understanding and as such the quotations had been rejected as they had been submitted at unrealistic high effective rates.

(g) Secondary Market Transactions

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Particulars of Treasury Bonds purchased from the primary and secondary markets by the Fund during the years from 2008 to 2016 are given below.

Year	Primary Purchases	Market Purchases	Total	As a percentage of total Treasury bonds purchases	Secondary Market purchases	As a percentage of Total Treasury bonds purchases	Total purchases of Treasury Bonds
	Direct Purchases	Purchases from auctions					
	Rs.Mn	Rs.Mn	Rs.Mn	%	Rs.Mn	%	Rs.Mn
2008	196,634.0	5,350.0	201,984.0	95.20	10,184.5	4.80	212,168.5
2009	228,379.2	5,750.0	234,129.2	98.55	3,450.0	1.45	237,579.2
2010	190,642.5	18,766.7	209,409.2	97.92	4,450.0	2.08	213,859.2
2011	275,063.1	23,300.0	298,363.1	98.91	3,300.0	1.09	301,663.1
2012	320,769.2	45,831.8	366,601.0	99.88	450.0	0.12	367,051.0
2013	333,966.7	111,285.0	445,251.7	92.96	33,730.7	7.04	478,982.5
2014	223,572.0	12,000.0	235,572.0	84.28	43,933.1	15.72	279,505.1
2015	30,796.1	186,583.3	217,379.4	74.19	75,631.0	25.81	293,010.5
2016	-	123,836.0	123,836.0	65.50	65,150.0	34.50	188,986.0

According to the above data, as an alternative to purchase Treasury bonds from the Primary Market by the Employees Provident Fund, purchase of bonds from other Primary dealers through the Secondary Market had included an increasing trend since the year 2013. Viz the Secondary Market purchases less than 5 per cent from the year 2008 to 2012 had increased up to 35 per cent in the year 2016.

#### 4.2.2 Investments in Treasury Bills

Similarly, the participation in the Primary Market transactions of Treasury Bills had been at a very minimum level in the year 2016 by the Employees Provident Fund. According to the information of the Communication Department of the Central Bank of Sri Lanka, 47 Treasury bills auctions had been held in the year 2016 but the EPF had participated only in 07 auctions thereof. Despite it was emphasized by the decisions of the Monetary Board dated 20 May and 17 October 2016 that the priority to be given to transactions with Primary Market and there was sufficient money in the Fund to participate in that transaction, sending quotations for Treasury bills auction at a minimum level had been controversial.

#### 4.2.3 Implementation of the recommendation of the Monetary Board of the Central Bank of Sri Lanka

The following observations are made.

- (a) According to the recommendations of the note in the meeting No.15/2016 of the Monetary Board of Sri Lanka dated 20 May 2016, a directive had been given stating that the priority should be given by the Fund to Primary Market which gives fair effective rate, being minimized the Secondary Market investments which gives lesser

effective rate. According to the above decision of the Monetary Board, it was recommended to limit Secondary Market transactions but the approval had been granted to deviate completely from the Secondary Market transactions of Treasury bonds, Treasury Bills and repurchase agreements, only on 17 October 2016 after 5 months from the note in the meeting No.31/2016. However, it was problematic that the Fund had completely kept away from the Treasury Bonds transactions in the Secondary Market after 20 May 2016.

- (b) As a result of completely keeping away from the Secondary Market transactions of Treasury Bonds after 20 May 2016, a problematic situation had arisen in respect of alternative investment sources in which daily cash balances of the Fund to be invested. Even though bids valued at Rs.116,000 million had been submitted in 9 instances in the Primary Market auctions for Treasury Bonds after 20 May 2016, succeeded only for Rs.72,000 million. In addition, as bonds had not been issued to primary dealers by Treasury Bond auctions during the period 29 September 2016 to 27 December 2016, the Employees Provident Fund could not invest money in the Treasury bonds in the months of November and December 2016.

#### 4.2.4 Investments in Company Shares

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The following observations are made.

- (a) Funds had been invested in Company shares in the years 2016 and 2015 amounting to Rs.79,874 million and Rs.83,573 million respectively. Particulars are given below.

	<b>2016</b>	<b>2015</b>
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	(Rs.Mn)	(Rs.Mn)
<b>(i) Dividend Income</b>		
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Ordinary Shares –		
- Quoted	2,104	2,361
- Unquoted	2,029	1,014
Performance Shares -		
- Quoted	130	137
<b>(ii) Capital gains (losses)</b>		
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Ordinary shares available for sale	461	527
Ordinary shares – Through profit or loss at fair value	(9)	26
(iii) Net income from financial assets through profit or loss at fair value – quoted shares)	(258)	(237)
(iv) Impairment Loss (quoted and unquoted)	(5,232)	(2,957)
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	775	871

(v) Net loss of financial assets available for sale	(3,364)	(5,181)
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	4,139	4,310
	=====	=====
Total share investments	79,874	83,573

Massive losses of Rs.4,139 million and Rs.4,310 million had been incurred in the years 2016 and 2015 respectively from the investment of shares of the Fund. Accordingly, any contribution had not been received by the Fund from the total investments of Rs.79,874 million in the year 2015 and Rs.83,573 million in the year 2016 and as such losses incurred on shares investments had strongly effected to further decline the reserves of the Fund.

- (b) As materially decreased the Market Price of shares in 6 companies where the Fund had invested money in long term as compared with their cost, an impairment loss of Rs.5,232 million had been incurred by the Fund in the year 2016 and 36 per cent thereof had been incurred due to decrease the value of shares of only one company. Similarly, even though the fair value of the investment made in one company had materially decreased by 56 per cent, it had not been recognized under impairment.

#### 4.3 Delayed Projects

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The Fund had joined an investment proposals of a Hotel Complex proposed to be newly constructed, under the total cost estimate of Rs.12 billion in collaboration with another two government institutions and a sum of Rs.5 billion had been used therefor at the end of the year 2013. According to the agreement of the shareholders signed on 04 June 2013 in that respect it was decided that the shares of the Company would be quoted in the share market prior to the end of the year 2015, but it had not been completed even by the end of June 2017, as construction works had been delayed.

#### 4.4 Personnel Administration

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The following observations are made.

- (a) The cost per employee relevant to the years 2016 and 2015 is given below.

	Year 2016		Year 2015	
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	Department	Central Bank	Department	Central Bank
	of Labour	of Sri	of Labour	of Sri Lanka
		Lanka		
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Salary Cost (Rs.'000)	385,175	477,974	342,558	405,941
Actual Cadre	281	184	244	154
Cost per employee (Rs.'000)	1,371	2,598	1,404	2,636
Increase of cost per employee in CBSL (%)	90		88	

As compared the cost per the employee of the Department of Labour, Employees Provident Fund unit with the cost per the employee of the Employees Provident Fund of the Central Bank of Sri Lanka, an increase of 90 per cent in the year 2016 and 88 per cent in the year 2015 had indicated. Salary anomalies between the Department of Labour and the Central Bank of Sri Lanka had been the reason therefor.

- (b) There had been 76 vacancies in the Department of Labour relating to the Fund by the end of the year 2016, comprising 18 staff grade posts and 58 non-staff grade posts. It can not be ruled out that the existence of vacancies in senior level posts had not directly affected to settle funds, delays in taking legal action etc.

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

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### **5.1 Audit Committee**

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Meetings of the audit committee are held together with all institutions under the Ministry of Labour. In addition, a separate audit committee was operated under the Ministry of Labour but the Central Bank of Sri Lanka by which financial functions of the Fund are carried out and its internal auditors had not participated therein. Attention should be paid to have a separate audit committee with the participation of the officers of the Department of Labour and the Central Bank of Sri Lanka who had been attached to the Fund, worth of Rs.1,811 billion.

### **5.2 Unresolved Audit Paragraphs**

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The present position of the implementation of recommendations of the Committee on Public Accounts is as follows.

<b>Recommendation No.</b>	<b>Recommendation and present position</b>
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No.07 (03) of 19 August 2014.	According to the instructions given to revise the existing law in order to give priority to recover the employees compensation due from a company at its liquidation, it was informed the Committee that the approval had been obtained from the Legal Draftsman for the draft but the revised Act had not been approved even by the end of August 2017.
No.08 of 26 February 2016.	Even though, it was instructed to prepare a formal plan for the next 10 years in joining all institutions for the future operation of the Employees Provident Fund, it had not been completed even by the end of August 2017.

Even though, it was instructed to submit a report to the Committee in respect of the ability to prepare one computer programme for the improvement of the Information Technology process of the Fund in joining the Department of Labour and the Central Bank of Sri Lanka before 23 March 2016, such a report was not made available even by the end of August 2017.

### 5.3 Internal Audit

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The approved cadre of the Internal Audit Division in the Department of Labour by which the administration functions of the Fund are done amounted to 8 and the actual cadre was limited to only 06. As 57 regional offices of the Department had existed and according to the volume of the transactions occurred the approved cadre was insufficient. Even though, the requirement of strengthening the internal audit of the Department had been discussed continuously in the meetings of the Committee on Public Accounts since 2013, action had not been taken to attach sufficient staff to the internal audit division and carry out an efficient audit.

### 6. Systems and Controls

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Weaknesses in systems and controls observed in audit had been reported to the Commissioner General of Labour and the Governor of the Central Bank of Sri Lanka from time to time. Special attention is needed in respect of the following area of control.

<b>Areas of Systems and Control</b>	<b>Observations</b>
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(a) Operating Control	(i) Non-preparation of a System to credit the contributions, so far not credited to the individual members account soon and to pay the benefits retained by the Fund to the relevant beneficiaries expeditiously.  (ii) Non-holding a separate audit committee for the Fund.
(b) Investment Control	Non-investment of funds so as to receive always maximum benefits to members.
(c) Internal Audit	Non-recruitment of a sufficient number of qualified staff to the internal audit unit and a sufficient internal audit to cover all the areas had not been carried out.