

Sri Lanka Social Security Board – 2016

The audit of financial statements of the Sri Lanka Social Security Board for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of financial performance, statement of changes in reserves 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

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

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 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 misstatement 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 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 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 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 the 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

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

2. Financial Statements

2.1 Qualified Opinion

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 2016 and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

As useful life time had not been reviewed annually in respect of non-current assets in terms of Sri Lanka Public Sector Accounting Standard 07, 03 motor vehicles costing Rs.5,390,000 had been fully depreciated but are being further used. Accordingly, the estimated error arisen had not been rectified as per Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Provision for gratuity in respect of the year under review had been understated by Rs.73,933 due to the computing errors.
- (b) Provisions had not been made in the financial statements in respect of the audit fees amounting to Rs.466,200 payable for the preceding year and the year under review .

2.2.3 Lack of Evidence for Audit

The detailed register including details such as the names of the persons payable, the value payable and other details relating to Rs.2,131,120 shown as accrued incentives as at 31 December in the year under review was not made available for audit.

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

According to Section 15(2) of Sri Lanka Social Security Board Act, No.17 of 1996, where any Contributor has been deprived of the benefits under the policy issued to him, the Board shall issue such Contributor a notice to that effect. However, the dormant contributors could not be identified from the year 2015 to July 2017 and as such, actions had not been taken to notify them thereon.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Board for the year under review had resulted in a deficit of Rs. 705,269 as compared with the corresponding deficit of Rs. 1,596,828 in the preceding year, thus indicating a minor increase in the financial results by Rs.891,559. Even though the income of the year under review had decreased by Rs. 4,174,472, the decrease in expenditure by Rs. 5,066,029 had mainly attributed for the above increase.

In the analysis of the financial results for the year under review and 04 preceding years, though the deficit of Rs.18,535,954 in the financial result for the year 2012 and it had converted into a financial surplus in the years 2013 and 2014. Nevertheless, it had again converted into a deficit in the years 2015 and 2016. However, taking into consideration the employees' remuneration and depreciation for non-current assets, the contribution of the Board which was Rs.48,284,602 in the year 2012 had improved with variances and it had been Rs.102,558,470 in the year 2016.

4. Operating Review

4.1 Performance

In terms of Section 4 of the Sri Lanka Social Security Board Act, No.17 of 1996, the main function expected from the Board was to establish a Pension and Social Security Benefit Scheme for self-employed persons other than those in the Fisheries and Agriculture Sectors and to administer and manage such scheme.

The following matters were observed at the evaluation of performance of the Board relating to the year 2016.

- (a) Make aware of self-employed persons on the benefits of thrift and resource management and to improve the living standards of self-employed persons had not been implemented in the year under review.
- (b) Two schemes in the names of "Surekuma" and "Arassawa" had been introduced in the year 2015 and 72,351 new contributors had been enrolled in the year 2016, comprising 9,737 contributors for the "Surakuma" Scheme and 62,614 contributors for the "Arassawa" Scheme. Accordingly, the percentage of enrolments had increased by 35 per cent as compared with the preceding year.
- (c) Out of the new contributors enrolled, deeds had not been issued for 61,389 contributors and issuing of deeds for the contributors enrolled in the preceding year had not been completed as well. Accordingly, delay in issuing of deeds for the contributors of the Pensions Scheme of the Board had caused the existence of a low level in the security of the aforesaid contributors and dormant of the deeds.

- (d) Even though the total number of contributors enrolled for the Pension Schemes by the Board as at 31 December 2016 stood at 565,645, out of that, the number of dormant contributors as at 31 December 2014 had been identified as 288,234 or 51 per cent. However, there had been a tendency in the annual increase in dormancies, but attention had been paid at a minimum level by the Board in holding the contributors within that scheme.
- (e) Decrease in receipts of contributions to the Pensions Fund and an increase in the payment of pensions were observed from the year 2013 to the year 2016. The total receipt of contributions in the year 2016 amounted to Rs.161,869,987 and the total payments for the contributors amounted to Rs.275,912,936 thus representing only 70 per cent of the receipts from the amount required for the payment of pensions had been covered from the contributions. The balance of the Pensions Fund by 31 December 2016 amounted to Rs.1,988,765,922 and the total investment value of the Board as at that date amounted to Rs.1,878,365,869. The non-existence of a risk in the unavailability of adequate funds in the Board, for commitments of pensions in future for the Pensions Fund could not be ruled out in audit.
- (f) Cancellation of membership and repayment of contributions had been Rs. 24,444,852 for 1,587 and Rs. 38,481,516 for 2189 in the year 2015 and 2016 respectively. As such, it was observed that there was a tendency in cancelling membership in large numbers and getting back money. The Board had not followed a methodology to retain the contributors further more. Failure in informing the contributors of the outstanding contributions had been the main reason for the increase in this tendency.
- (g) The contribution Fund had been declined due to disburse of totalling Rs.5,519,603 comprising Rs.1,317,500 as the vehicle rent of the Chairman except the payment of benefits from the contributions collected and Rs.4,202,103 for the awarding ceremony.

4.2 Management Activities

The following observations are made.

- (a) As failure in entering the information to the computer system before the year 2014 from the enrolling of contributors to the payment of Pensions Fund, a new computer system had been installed by the Board, spending a sum of Rs.23,947,068 in the year 2014 from the Pensions Fund, the following deficiencies and problems had arisen in the operations.
 - (i) Failure in obtaining information on the dormant and active contributors and identifying contributors who had completed 60 years of age through the Pension Module.

- (ii) Problems in obtaining reports due to operating both the old and new computer systems.
 - (iii) Failure in computerizing the contributory applications of the “Arassawa” preplan and preparing data relating to payment of pensions and incentives.
 - (iv) In computerizing an instalment relating to a particular contribution number, one receipt can be computerized for one contributor or many contributors at the same time. As such, a possibility of a high risk remains in re-obtaining an amount which had not been paid, at the receipt of pensions and discontinuing of contributions without actually paying instalments to the contributors who pay instalments specially through banks.
 - (v) According to the existing system of computerizing applications, only 9 identification numbers can be entered. However, according to the new identity card at present, 12 numbers should be entered. As such, the inability of including that facility in this computer system.
- (b) Even though a sum of Rs.2,550,946 had been retained in the year under review from the capital provision for the installment of a new computer system for avoiding the above defects , the activities on obtaining that computer system had not been completed up to 20 July 2017.
 - (c) As the data system had not been activated as identify the enrolment of contributors correctly through Divisional Secretariats and congregation of sessions from the year 2014 , a provision of Rs.2,131,120 payable as incentives for the Officers contributed for that purpose had been made in the financial statements . However, that payments had not been completed.
 - (d) A sum totalling Rs.9,572,342 comprising Rs.1,261,347 as received from the contributors who directly deposited in Banks from the year 2004 to the year 2015 and a sum of Rs.8,310,995 due to the inactive condition of the computer system from time to time in the year 2015 and the year 2016 had been shown in accounts as the deposits unable to identify. It was observed that payment of benefits could not have been done on the accurate balances of the contributors due to those had identified and not credited to the accounts of the relevant contributors.
 - (e) A sum of Rs.195,000,000 had been paid out of the Pensions Fund to purchase a building to function the Head Office of the Board exceeding the Government assessment of Rs.165,000,000 without allocating necessary funds and following the Procurement Process.

4.3 Personnel Administration

The following observations are made.

- (a) The approved cadre was 180 and the actual cadre was 160 as at 31 December in the year under review and as such, there were 20 vacancies existed.

- (b) The post of Deputy General Manager (Finance) in the Board had been vacant for a period of 03 years and a newspaper advertisement had been published in April in the year under review by spending a sum of Rs.72,677 for this recruitment. However, this recruitment had not been done even up to the date of 20 July 2017.

5. Accountability and Good Governance

5.1 Corporate Plan

Even though the following matters had been identified as weaknesses and threats of the Corporate Plan prepared by the Board for the years 2014-2016, action had not been taken to resolve those weaknesses and threats even by the end of the year under review.

- (a) Making amendments to the Act timely and according to the social requirements.
- (b) National Policy in respect of social security had not been available.
- (c) The Government contribution for schemes had not been received.
- (d) The information system had not been developed according to the requirements.
- (e) The communication with the contributors of the Board existed at a minimum level and the follow up actions after enrolment of the contributors existed at a minimum level.
- (f) Payment of contributions, remittance and accounting , weaknesses and unidentified balances existed at a high level.

5.2 Action Plan

The Action Plan for the year under review had been presented by the Board to the Board of Directors on 13 October 2016 and approval had been obtained .The following observations are made in this connection.

- (a) Even though 07 main activities and 31 sub-activities had been included in the Action Plan as it had prepared in October 2016 ,it could not have been completed within the period of 02 months. Accordingly, the Action Plan had not been prepared in a manner to achieve the objectives of the Board.
- (b) The main objective of the Board is to establish a Pension and Social Security Benefit Scheme for self-employed persons other than those in the Fisheries and Agriculture Sectors .Accordingly, the expected recruitment target for the year under review had not been included in the Action plan.

5.3 Budgetary Control

Variances between the budgeted and the actual income and expenditure ranging from 15 per cent to 91 per cent were observed, thus indicating that the Budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Weaknesses in systems and controls 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.

Areas of Systems and Controls	Observations
-----	-----
(a) Management of Contributions	i. Delay in issuing deeds in recruiting contributors and the deeds issued were not accurate.
	ii Failure in identifying the dormant contributors conclusively.
	iii A definite methodology is not available in recording the instalments collected by Banks.
(b) Computerization	Failure in duly identifying the persons who entitled to obtain pensions due to the existing computer system is not matched with the requirements.