

## **Public Services Provident Fund - 2017**

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The audit of financial statements of the Public Services Provident Fund for the year ended 31 December 2017 comprising the balance sheet as at 31 December 2017 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(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 24(1) of the Public Services 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**

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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 Auditing Standards of Supreme Audit Institutions (ISSAI-1000-1810)

### **1.4 Basis for Disclaimer of Opinion**

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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 balance sheet, income and expenditure account and cash flow statement.

## **2 Financial Statements**

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### **2.1 Disclaimer of Opinion**

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Because of the significant 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**

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

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Even though in terms of Paragraph 7 of the standard 1, revenue, expenses and assets ,liabilities should be accounted on accrual basis, contrary to that, it had been stated that the funds received to the Fund under Accounting Policy 2.4(d)(ii) included in the annual accounts would be accounted based on cash basis.

## 2.2.2 Unexplained Differences

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While un identified balances relating to the debits and credits made to the account of the Fund by various institutions through the monthly summary of accounts settled , had been accounted to an Adjustments Account and the debit balance of that account was Rs.29,209,393 as at 31 December 2017. However, the balance of the relevant schedule as at that date amounted to Rs.23,468,875 thus an unexplained difference of Rs.5,740,518 observed . It was observed at audit that a sum of Rs.12,327,462 out of the balances shown in the schedule were from 2 years to 4 years and a sum of Rs.874,093 was older than 5 years.

## 2.2.3 Lack of Evidence for Audit

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The following observations are made.

- (a) The accuracy of the balance amounting to Rs.21,479,409,368 of the Compulsory Contributions Account shown in the accumulated Fund , balance amounting to Rs.33,418,512,038 of the Government Contributions Account and the balance amounting to Rs.33,394,939 of the Voluntary Contributions Account could not be vouched in audit due to action had not been taken to maintain the Individual Accounts for the contributors who contributed under the Fund in terms of Section 2.2 of the Public Services Provident Fund Ordinance of 1942.
- (b) Even though action had been taken to confirm the contributions paid by the contributor to the Fund in the recovery of contributions from the Institutions the contributor served, the accuracy of the value of contributions and the interest amounting to Rs.497,808,187 re-paid in the year under review from the Accumulated Fund and the contributions and the interest amounting to Rs.474,425,527 to be re-paid could not be verified in audit due to unavailability of a methodology to confirm by the Accounts of the Fund whether the said money received to the Fund accurately.

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

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The following instances of non-compliance with laws, rules, regulations and management decisions were observed in audit.

<b>Reference to Laws, Rules, Regulations, etc.</b>	<b>Non- compliance</b>
Public Services Provident Fund Ordinance (Cap. 621) of 1942	
(I) Sections 16 (1 b) and 20 (b)	Even though if a contributor is dismissed, or discontinued on the ground of inefficiency or misconduct, or a contributor to the Fund is appointed to a pensionable post in the Public Service , the amount of this contributions to the Fund and interest thereon shall be paid to the

contributor, all bonuses and interest thereon provisionally credited to the account of the contributor shall be credited to the Consolidated Fund, a sum totalling Rs.474,425,527 relating to the year 2017 should have been paid as government bonuses and interests .

(II) Sections 25

As soon as practicable after the close of each financial year, the Director General of Pensions shall inform each contributor of the total amount standing to his credit in the Fund as at 31 December in each year, the Fund had not taken action accordingly due to non- maintenance of Individual Ledger Accounts.

2.4 **Accounts Receivable and Payable**  
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Action had not been taken to identify and settle the in advance payment balance amounting to Rs.141,721 outstanding from the year 2014 even by 31 December 2017 .

3. **Financial Review**  
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3.1 **Financial Results**  
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According to the financial statements presented, the financial results of the Fund for the year under review amounted to a surplus of Rs.5,642,414,331 as compared with the corresponding surplus of Rs.5,362,412,053 for the preceding year, thus indicating an improvement of Rs.280,002,278 in the financial result as compared with the preceding year. The increase of the interest income for the year under review by Rs.281,505,452 on investment had been the main reason for the improvement of the surplus.

In the analysis of the financial results in the year under review and 4 preceding years, the surplus amounted to Rs.2,757,264,050 in the year 2013 had been increased continuously at the end of the year under review up to Rs.5,642,414,331. The contribution of the Fund amounted to Rs.2,768,124,405 in the year 2013 had increased up to Rs.5,736,195,733 at the end of the year under review in considering the employee emoluments ,taxes paid to the Government and depreciation on non-current assets .

4. **Operating Review**  
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4.1 **Performance**  
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The main objective of the establishment of the Public Services Provident Fund is for the grant of benefits to every non-pensionable employee in the service of the Government. The following matters were observed at the examination carried out in respect of the achievement of the said objective.

- (a) A sum of Rs.497,808,187 had been paid for 8,422 applications among 9,376 total applications presented for the obtaining of benefits by the members of the Fund including 3,704 applications existed as at 01 January 2017. Payments had not been made for 954 applications by 31 December in the year under review.
- (b) An interest rate of 13 per cent had been paid for the year under review with the compulsory interest of 2.5 per cent for the members of the Fund and only 12.34 per cent had been paid for the year 2016. The interest rate paid for the members for the year 2017 as compared with the year 2016 had been increased by 0.66 per cent.

5. **Systems and Controls**  
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Weaknesses in systems and controls 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.

<b>Areas of Systems and Controls</b> -----	<b>Observations</b> -----
(a) Accounting	Failure to prepare the financial statements of the Fund in accordance with Sri Lanka Public Sector Accounting Standards and failure to maintain accounts books properly.
(b) Control of the Individual balances of the members.	Failure to maintain Individual Accounts for the members and non-maintenance of the members abatement register up to date.