

Employees' Provident Fund - 2017

The audit of financial statements of the Employees' Provident Fund for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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(3) 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

The 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

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 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. 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

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 effect 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 2017 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

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

a) **Sri Lanka Accounting Standard 16**

- (i.) In terms of Section 07 of the Standard, the cost of an item shall be recognized as an asset if and only if it is probable that future economic benefits associated with the item will flow to the entity. However, irrespective of that, sums of Rs. 1,029,145 and Rs. 3,172,415 incurred on repairing machines, and vehicle repairs respectively under 02 Capital Objects, had been capitalized in the year under review. Furthermore, provision on depreciation had been made by 20 per cent on the expenditure incurred on repairing vehicles since the year 2013; and hence, the value of depreciation relating to the year under review had been overstated by Rs. 1,804,446 as well.
- (ii.) Due to failure in reviewing the useful life of non-current assets annually in terms of Section 51 of the Standard, fixed assets valued at Rs. 209,264,405 were still in use despite being fully depreciated as at 31 December 2017, but action had not been taken to rectify the estimated error in accordance with Sri Lanka Accounting Standard 08.

2.2.2 Accounting Policies

The following observations are made.

- (a) Computer software should have been shown under intangible assets in accordance with the accounting policy of the Fund. Nevertheless, the software valued at Rs. 4,626,366 purchased in the year 2017 had been shown under computers and accessories.
- (b) According to the accounting policy of the Fund, it had been identified that the intangible assets purchased before 31 December 2016, should be amortized within a period of 02 years; however, those assets had been amortized throughout a period of 04 years.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Contributions totalling Rs. 100,583,388 retained in General Deposits Accounts of the District Labour Offices of the Department of Labour until being settled after having recovered by filing cases against the employers, had not been brought to accounts by the Fund.
- (b) Action had not been taken even up to the date of this report, 31 December 2017 to credit the sum of Rs. 10,756 million as at 31 December 2017 maintained over an extensive period in an account under the name of Commissioner of Labour in the Members' Fund of the Fund after being recovered by filing cases against the employers, along with the sum of Rs. 378 million as at 31 December 2017 that had been retained in a General Deposits Account after being recovered by filing cases until being settled, to the individual accounts of the members. Furthermore, a sum of Rs. 779 million as being retained and unclaimed benefits, and a sum of Rs. 1,647 million as being underprovision/overprovision contributions, had been shown in the Members' Fund as at as at 31 December 2017, but no action had been taken to identify and settle those balances.

The following observations are further made in connection with the aforesaid matter.

- (i) The Committee was informed by the Chief Accounting Officer that a new computer software was being introduced so as to expedite the process of settling the aforesaid sum of Rs. 10,756 million in accordance with the Recommendation, No. 7 (ii) of the Public Accounts Committee, dated 06 February 2013. Nevertheless, no computer software was identified even up to the date of this report. However, the said balance that amounted to Rs. 8,142 million as at the end of the year 2015 became Rs. 10,979 million and Rs. 10,756 million as at the end of the years 2016 and 2017 respectively, thus indicating a growing trend in that balance.
- (ii) The members had been deprived of interest income as the sum of Rs. 377,716,250 retained in a General Deposits Account as mentioned above, had not been credited to the members' accounts.
- (iii) Despite being ordered continuously by the Public Accounts Committee since the year 2013 that the sum of Rs. 779 million shown as retained and unclaimed benefits, together with the balance of Rs. 1,647 million in the UP/OP Account as at 31 December 2017, be settled, it had not been so done. In the wake of those balances being on the increase annually with no interest received, it was observed in audit that it was essentially necessary for the attention of the Fund be brought on the formulation of a methodology in order to immediately settle such balances.

- (c) Accrued expenses had been understated in accounts by a sum of Rs. 1,946,676 as at 31 December 2017.
- (d) As for 07 bank accounts being maintained by the Fund, a sum totaling Rs. 1,413,749,124 had been shown in the bank reconciliation statements over a period of 10 years comprising of issued cheques that had been dishonored, dishonored cheques that had been deposited, deposited cheques, cash deposits that had not been recorded in the cash book, direct debits/credits, and unidentified other balances, along with a sum of Rs. 1,479,240,883 comprising of unrealized cash/money orders despite being deposited, unrealized cheques, and un-encashed cheques despite being issued. Nevertheless, no action had been taken even up to the date of this report to identify and adjust those balances.
- (e) The income tax balance of Rs. 285,108,000 arisen in the wake of an accounting error that had taken place in the year 2016, had further been shown under current assets without being rectified in the year under review.

2.2.4 Unexplained Differences

The following observations are made.

- (a) According to financial statements relating to 03 categories of fixed assets , the balance amounted to Rs. 881,432,176 as at 31 December 2017, but the total of those balances amounted to Rs. 537,780,607 as per the schedule made available, thus observing a difference of Rs. 343,651,569.
- (b) According to the bank confirmation relating to 02 current accounts that remained dormant as at 31 December 2016, the balances thereof totaled Rs. 69,755 though, that sum was shown as Rs. 6,810,000 in the financial statements. As such, a difference of Rs. 6,740,245 was observed in the cash balance.

2.2.5 Lack of Evidence for Audit

The evidence shown against the following items, were not made available to Audit.

Item	Value	Evidence not Made Available
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	(Rs. ,000)	
(i) Investments in Treasury Bills.	69,783,696	<ul style="list-style-type: none"> • Recommendations for investing, approval of the Investment Committees and Monetary Boards.
(ii) Investments in Shares – Listed.	74,042,107	<ul style="list-style-type: none"> • Register of Shares. • Sector wise Schedules.
(iii) Investments in Shares – Non-listed.	10,270,625	<ul style="list-style-type: none"> • Share Certificates. • Share Register. • Sector wise Schedules. • Confirmation of Balances.

(iv) Fixed Deposits.	48,000,000	<ul style="list-style-type: none"> • Paper of the Monetary Board granting special approval for investing in fixed deposits. • Confirmation of balances. • Decisions of the Investment Committee.
(v) Debentures.	5,349,207	<ul style="list-style-type: none"> • Debenture Certificates. • Approvals of the Investment Committee and the Monetary Board.
(vi) Trust Certificates.	2,746,076	<ul style="list-style-type: none"> • Trust Certificates. • Approvals of the Investment Committee and the Monetary Board. • Confirmation of Balances. • Detailed Schedules.
(vii) Other Revenue – Surcharges, and Department of Labour.	587,600	<ul style="list-style-type: none"> • Detailed Schedules.
(viii) Property, Plant and Equipment (Cost).	309,219	<ul style="list-style-type: none"> • Register of Fixed Assets.
(ix) “MehewaraPiyasa” funds receivable from the Treasury.	377,147	<ul style="list-style-type: none"> • Confirmation of Balances.
(x) Commissioner General of Labour – Imprest.	534,034	<ul style="list-style-type: none"> • Confirmation of Balances. • Schedules.
(xi) Benefits Payable.	170,999	<ul style="list-style-type: none"> • Detailed Schedules.

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

The following non-compliances with Laws, Rules, Regulations, and Management Decisions, were observed.

Reference to Laws, Rules, Regulations, etc.

Non-compliance

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| <p>(a) Section 8.7 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, and Public Enterprises Circular, No. 03/2016, dated 29 April 2016.</p> | <p>The PAYE tax of the officers of the Central Bank of Sri Lanka attached to the Employees’ Provident Fund had not been recovered from the relevant officers; instead, a sum of Rs. 17,915,000 had been paid by the Fund in the year under review. Despite being informed at the session of the Public Accounts Committee held on 26 February 2016 that a proper methodology and a procedure for update be formulated by discussing with the Secretary to the Ministry of Finance in compliance with instructions of the budget for the year 2016 and the Public Finance Circulars, it had not been done so even up to the end of July 2018.</p> |
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(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

(i) Financial Regulation 395 (b) & (c). Bank reconciliation statements had not been prepared relating to the bank account being maintained for direct debits and credits of the Fund.

(ii) Financial Regulation 570. Even though 03 years and 02 years had elapsed with respect to the advance of Rs. 813,686 received for the “Mehewara Piyasa” building, and the sum of Rs. 450,530 retained in respect of contracts and other agreements respectively, action had not been taken to settle them; instead, those monies had been retained in 02 General Deposits Accounts.

(c) Public Finance Circular, No. 05/2016, dated 31 March 2016. The Board of Survey for the year 2017 had not been conducted on the Property, Plant and Equipment valued at Rs. 185,330,000 and existed in the Employees’ Provident Fund of the Central Bank of Sri Lanka, thus failing to present the reports thereof to the Audit.

(d) Circulars of the Department of Labour.

(i) Section 3.1 of the Circular, No. 15/2007, dated 31 October 2007. There were 86 instances in which inspection reports had been furnished after a delay of 10 – 30 days from the date of conducting field inspections by the Labour Officers of the District Labour Office, Maharagama, along with 284 instances in which inspection reports had been furnished after delays exceeding 30 days.

(ii) Circular, No. 08/2002, dated 20 May 2002. Action had not been taken by the District Labour Offices in Maharagama, and Colombo Central to maintain a Register of Institutions containing information such as, registration number, name of the institution, address, nature of the business, number of employees, and the date of last inspection.

- (e) Circular, No. 01/99, dated 11 February 1999. It was observed in the audit test check carried out with respect to the period from June 2016 up to July 2017 that there had been 33 instances in which red notices had not been issued although 14 days had elapsed from the date of issuing the first reminder by the District Labour Office, Maharagama, and 67 instances in which a delay ranging from 27 days to 283 days had occurred before issuing red notices.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review had been a net profit of Rs. 202,947 million as compared with the corresponding net profit of Rs. 175,927 million in the preceding year thus observing an improvement of Rs. 27,020 million in the financial result of the year under review as compared with the preceding year. The increase in the interest income of the year under review by a sum of Rs. 22,861 million had mainly attributed to the improvement of the financial result.

The analysis on the financial results of the year under review and 04 preceding years indicated that the net profit of the Fund for the year 2013 amounting to Rs. 125,610 million had continuously increased to Rs. 202,947 million by the year under review. Furthermore, once the employee remuneration, taxes paid to the Government, and depreciation on non-current assets had been adjusted to the financial result, the contribution of the Fund for the year 2013 amounting to Rs. 136,299 million had continuously increased to Rs. 222,730 million by the end of the year under review.

3.2 Legal Cases Instituted by the Fund

The Fund had filed 9030 cases before the Courts throughout the Island as at 31 December 2017 against external institutions for the recovery of contributions and surcharges totaling Rs. 10,050,779,371.

4. Operating Review

4.1 Performance

4.1.1 Functionality and Review

The following observations are made.

- (a) According to the Action Plan of the Employees' Provident Fund Division of the Department of Labour for the year 2017, it had been planned to create a television advertisement for promoting the Fund at an estimated cost of Rs. 08 million, and air advertisement for 80 times within a month on 02 television channels. Nevertheless, only a television advertisement had been created within the year under review.
- (b) In spite of being planned under the project for obtaining photographs and fingerprints to collect fingerprints of 100,000 members at an estimated cost of Rs. 17 million, that project had not been implemented. Although it was planned to collect fingerprints of 50,000 officers of the Department, fingerprints of only 12,600 officers had been collected.
- (c) According to the annual Action Plan of the Employees' Provident Fund Division of the Central Bank of Sri Lanka for the year 2017, it had been planned to carry out activities such as, presentation of research reports relating to investments and fund management; improvement of accounting and investment software (SAP System) with the assistance of Information Technology Division; publishing advertisements on TV and newspapers in regard to new facilities of the Employees' Provident Fund; and, publishing and up-to-date and detailed handbook for guiding employers and clientele. Nevertheless, those activities had not been carried out in the year under review.

4.2 Investment of Funds

The following observations are made.

- (a) It was stated in Chapter 32 – “Determination and Report on Issues Stated in the Mandate” (Pages :880 – 910) of the report of “Presidential Commission of Inquiry to Investigate and Inquire into the Issuance of Treasury Bonds” relating to the period from 01 February 2015 to 31 March 2016, that the Perpetual Treasuries Limited had earned net profits totaling Rs. 11,145,221,480 through transactions performed with respect to 07 Treasury Bonds. It was mentioned that a net profit amounting to Rs. 8,529,964,496 out of the said amount, had been earned through Government institutions inclusive of Employees' Provident Fund.

The 15th Recommendation in Chapter 33 of the said report (Pages : 911 – 922) expected that whether any loss was found to have been sustained by the Employees' Provident Fund in the investigation carried out by the Monetary Board and the Central Bank of Sri Lanka on transactions performed by the Employees' Provident Fund and if so, the officers responsible therefor be identified, and a thorough investigation be carried out as to the recovery of such a loss from the officers responsible. Furthermore, it was also recommended to look into the parties that had

been privileged to perform transactions on behalf of the Employees' Provident Fund , and the persons who had acted fraudulently.

- (b) The Fund, together with 02 other Government institutions, had made an investment in a company related to a hotel complex proposed to be built newly under a cost estimate totaling Rs. 12 billion; and, a sum of Rs. 05 billion from the Fund had been invested therein by the end of the year 2013. According to the agreement of the shareholders signed on 04 June 2013 in that connection, it had been decided to list the shares of that company at the share market prior to the end of the year 2015. However, those activities had not been completed even up to the end of June 2018 due to delays in the constructions. As such, the Fund had not received any benefit whatsoever since the date of investment.

According to the comment of the Deputy Governor of the Central Bank of Sri Lanka, the relevant hotel company informed that it had been decided by the Government to suspend the constructions of the said company thereby selling it.

- (c) A sum of Rs. 1,516 million had been invested by the Fund in 31 million shares of the companies such as, Sri Lanka Airlines, The Finance Company PLC, and Galadari Hotels (Lanka) PLC, but no benefit whatsoever had been received by the Fund ever since the date of investment. Moreover, the computed value of impairment loss amounted to Rs. 1,300 million as the market value of the said investments amounted to Rs. 216 million as at 31 December 2017 whilst being revealed by the Audit that the companies named, Sri Lanka Airlines, and The Finance Company PLC, had already been sustaining losses at the time of investing in those companies.
- (d) Even though an investment of Rs. 44 million had been made by the Fund in 11 million shares of the PC House Company in the year 2013, the Fund had not received any benefit whatsoever since the date of investment. It was revealed that the company had already been sustaining losses at the time of making investment. Furthermore, an actual loss of Rs. 43 million had been sustained by the Fund following the sale of those shares in the year 2016.

4.3 Management Activities

The following observations are made.

- (a) Several officers of the district office in Western Colombo had provided housing loans in the year 2017 for 63 members through a state bank using their provident funds as a surety in a fraudulent manner. The value for Certificates of balances of Employees' Provident Fund housing loan sureties that had been issued, totalled Rs. 63,169,974.
- (b) In terms of Section 23 (a) of the Employees' Provident Fund (Amendment) Act, No. 02 of 2012, providing the members fulfilling the requirements of the Act with benefits relating to housing and medical treatments equivalent to 30 per centum of the amount lying to his credit in his individual account had been commenced with effect from May, 2015. Accordingly, a sum totaling Rs. 58,300 million had been paid during 2015 – 2017 as payments of prior benefits.

However, the said Amendment Act had not stated the legal process required for follow-up action to ensure that the contributions so released to the members would be utilized on the said purposes. As such, it was observed that there was a possibility for the said contributions to be used on other purposes.

- (c) According to the Annual Report of the Central Bank of Sri Lanka, 69 per cent or 2,626,169 active members had contributed to the Employees' Provident Fund out of the total of 3,799,628 employees reported to have been employed in the private, and Semi-Government sectors by the end of the year 2017. As only 11 per cent of the employees had contributed to other approved provident funds, the rest of the 20 per cent of employees had not contributed to any of the funds. Attention had not been drawn on the possibility of granting membership of the Fund to such employees.

4.4 Operating Activities

The following observations are made.

- (a) In terms of Section 3 of the Employees' Provident Fund (Amendment) Act, No. 26 of 1981, surcharges should be calculated for the delay in respect of the employers failing to pay the contributions to the Fund on time. However, it was revealed in audit test checks carried out on the database of the Central Bank of Sri Lanka that action had not been taken to recover surcharges for delay totaling Rs. 39,392,187 from 08 employers of the District Labour Office in Maharagama relating to the period from the year 2000 up to September 2017 whilst surcharges totaling Rs. 119,850,759 had not been recovered as at 25 October 2017 from 14 employers pertaining to the District Labour Office in Colombo Central.
- (b) In terms of Section 14 of the Employees' Provident Fund Act, No. 15 of 1958, Interest at such rate, not less than two and a half per centum per annum, shall be paid by the Monetary Board for each year, out of the income from the investment of the moneys of the Fund, on the amount standing to the credit of the individual account of each member of the Fund. Taking into account the rates of interest so paid in 2017 and the years prior, the rate had gradually declined from 13.75 per cent to 10.5 per cent during the period 2009 – 2014. As for 03 preceding years and the year under review, the rate of interest remained fixed at 10.5 per cent.

4.5 Underutilization of Funds

As annual estimates had been prepared without identifying the requirements properly, the saving of provision allocated for 09 Objects in the year 2017 ranged between 13 per cent – 80 per cent.

4.6 Underutilized Assets

The Fund had purchased a printer in November 2007 incurring a cost of Rs. 21,884,084, but printing had been done through external institutions without making use of the maximum capacity of the printer. A sum totaling Rs. 32,324,470 had been paid during 2013 – 2016 only for printing the ABH Forms.

4.7 Resources Released to other Government Institutions

Expenses totaling Rs. 1,298,638 had been incurred by the Fund in 23 instances during the year under review on the repairs of 16 vehicles owned by the Department of Labour.

4.8 Staff Administration

The following observations are made.

- a) There had been no personnel approved by the Monetary Board attached to the staff of the Central Bank of Sri Lanka in the Employees' Provident Fund. The actual cadre of 159 in the year 2015, had increased to 176 by the end of the year under review.
- b) The approved cadre in the Department of Labour relating to the Fund had been 303 with the actual cadre of 200 by the end of the year 2017 indicating 103 vacancies. The vacant staff consisted of 09 posts in the staff grade, and 93 posts in the non-staff grade. The fact that the existence of vacancies in senior posts had not directly caused the delays in the administration of the Fund including settlement of funds, and taking legal action, could not be ruled out in audit.
- c) The cost per employee of the Fund relating to the years 2017 and 2016 is shown below.

	Year 2017		Year 2016	
	Department of Labour	Central Bank of Sri Lanka	Department of Labour	Central Bank of Sri Lanka
Cost on Salaries (Rs. '000)	387,855	459,475	383,175	477,974
Actual Cadre	805	176	812	184
Cost per Employee (Rs. '000)	482	2,611	472	2,598
Difference in the Cost per Employee (Rs. '000)		2,129		2,126

As compared with the cost per employee of the Department of Labour in Employees' Provident Fund, it was observed that the cost per employee of the Employees' Provident Fund Division of the Central Bank of Sri Lanka had increased by sums of Rs. 2,126,000 and Rs. 2,129,000 in the years 2016 and 2017 respectively. The main reason therefor had been the salary anomalies between the Department of Labour and the Central Bank of Sri Lanka.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

In terms of Letter, No. NP/SP/SDG/17 dated 14 August 2017 of the Secretary to the Ministry of National Policies and Economic Affairs relating to sustainable development, every Government institution should comply with the 2030 Agenda for Sustainable Development adopted by the United Nations. As the Employees' Provident Fund had not been aware as to how to act in regard to the activities under its purview, no action had been taken to identify the sustainable development goals and targets, milestones in reaching those targets, and the indicators to measure the achievement of the targets.

The Deputy Governor of the Central Bank of Sri Lanka commented that the Central Bank of Sri Lanka, as an institution, was taking measures in that connection, and the functions of Employees' Provident Fund, being a department of the Central Bank of Sri Lanka, had not directly linked to the objectives thereof.

6. Accountability and Good Governance

6.1 Audit Committees

Meetings of the Audit Committee relating to the Fund are held with all the institutions functioning under the Ministry of Labour. In addition to that, a separate meeting of the Audit Committee had been held under the Department of Labour; however, the Central Bank of Sri Lanka involved in financial administration of the Fund and the internal auditors thereof, had not participated therein. Attention should be brought on the requirement of conducting a separate Audit Committee meeting for the Fund having a sum of Rs. 2,066 billion with the participation of officers of the Department of Labour and the Central Bank of Sri Lanka attached to the Fund.

6.2 Procurements

The following observations are made.

- (a) A Procurement Plan for the year 2017 had been prepared though, the Plan had not been reviewed in a timely manner in terms of Guideline 4.2.1 (e) of the Government Procurement Guidelines whilst being observed that the Plan had not been made use of as an instrument of management. Furthermore, the procurement activities valued at Rs. 27,041,800 such as, computerization and scanning of "A" and "H" Sheets; printing of ABH Forms and Loan 14 Forms; and printing of property loan and other formats, had not been included in the Procurement Plan of the year under review.
- (b) According to the Procurement Plan for the year 2017, it had been scheduled to commence all the procurements in the first quarter and conclude in the second quarter. Nevertheless, many of the procurements had not been commenced in the first quarter as planned, and hence, such procurements could not be concluded in the

second quarter. As procurements had not been planned efficiently although provision had been made in the annual estimate, many of the purchases had been made in the last month of the year.

- (c) The deficiencies observed in general with regard to the procurements made in the year 2017 by the Employees' Provident Fund Division of the Department of Labour, are as follows.
 - (i.) A Procurement Timetable had not been prepared for each procurement in terms of Guidelines 4.2.2 & 4.2.3 of the Procurement Guidelines. As such, it was revealed that the responsibilities and duties of the Procurement Committees and Technical Evaluation Committees described in Guidelines 2.5.1 (b) & (c) and 2.6.1 (a) (i) of the Procurement Guidelines had been ignored. Furthermore, scheduling the meetings of the Procurement Committees and Technical Evaluation Committees, maintenance of attendance registers, and preparation of the minutes of the meetings in a specific format, had not been done in terms of Guidelines 2.11.1, 2.11.2, and 2.11.3 (a).
 - (ii.) A Total Cost Estimate had been prepared in accordance with Guideline 4.3.1 of the Procurement Guidelines, but all the relevant costs had not been included therein. Hence, the Estimate had not been approved by the Head of the Department in terms of Guideline 4.3.2 of the Procurement Guidelines.
 - (iii.) Main eligibility criteria and qualification requirements of the successful bidder had not been included in the bid invitations in terms of Guideline 5.3.2 of the Procurement Guidelines.
 - (iv.) The minimum bidding period of the national competitive bidding should be 21 days in accordance with Guideline 6.2.2 of the Procurement Guidelines. However, with respect to 08 procurements made thereunder, bidding periods of less than 21 days had been provided.
- (d) The following observations are made on the procurement of computerization and scanning of "A" and "H" Sheets of the Fund.
 - (i.) According to Guideline 7.4.1 of the Procurement Guidelines, bids should be evaluated as soon as possible. The Technical Evaluation Committee should conclude the evaluation of bids within 50 per cent of the validity period of the bids in terms of Chapter 7 of the Procurement Manual. Accordingly, the said evaluation of bids should have been concluded within a period of 45 days, but a period as extensive as 210 days had been spent therefor.
 - (ii.) It was observed in the examination of technical evaluation reports that bid examination and detailed bid evaluation had not been carried out in accordance with Guideline 7.7.1 (b) of the Procurement Guidelines. Furthermore, attention had been paid more on following the laws relating to labour than evaluating the technical aspects when evaluating bids.

- (iii.) In terms of Guideline 5.3.19 (b) of the Procurement Guidelines, post qualification criteria should also be clearly stated in the Bidding documents. Contrary to that, only the selected bidder had been provided with an opportunity for a practical test.
 - (iv.) It is necessary to determine in terms of Guideline 7.10.1 (b) of the Procurement Guidelines that the bidder who has submitted the lowest evaluated bid has the required capacity and resources to carry out the contract effectively. Nevertheless, it was not verified according to the technical evaluation report that the adequacy and suitability of resources such as hardware, software, and staff with technical know-how pertaining to the institution selected for supply of the said service, had been evaluated by the Technical Evaluation Committee.
 - (v.) A Bid Evaluation Report had not been prepared by the Technical Evaluation Committee in terms of Guideline 7.11.1 of the Procurement Guidelines.
 - (vi.) The specifications had stated that the bidder should possess an accuracy of 99.8 per cent in computerizing data. However, data had been computerized with many a mistake in 02 instances of examining the capability. Although data had been computerized with about 10 per cent of errors in one instance, that bidder had been selected as being successful. According to the specifications, at least 40,000 “A” and “H” Sheets should have been computerized and scanned per month; however, only 28,622 Sheets had been completed monthly during the period of 01 April 2017 - 31 December 2017. Owing to that inefficiency, about 400,000 “A” and “H” Sheets had been retained at the stores of the Central Filing Section without being computerized or scanned as at 31 December 2017.
 - (vii.) Due to reasons such as, failure to adhere to a plan properly, and the delay in the said procurement, the service of computerizing and scanning the “A”, “B”, “H”, “I”, and “J” Sheets had been obtained during the period of 01 April 2016 – 31 March 2017 from the institution which had provided that service in the preceding year by deviating from the Government Procurement Guidelines – 2006, and a sum of Rs. 3,978,800 had been paid in that connection. Despite being recommended by the Technical Evaluation Committee on 26 September 2016 to prepare a plan in order to train the Data Entry Clerks of the relevant District Labour Offices with a view to executing the said activity at the District Labour Offices in the future, it was revealed in the audit that the management had not brought their attention on the said proposal.
- (e) The following observations are made on the procurement for printing the ABH Forms of the Fund.

- (i.) Specifications and bid documents had not been prepared in accordance with Guideline 5.1.1 (a) of the Procurement Guidelines. As such, a bidder who had requested several conditions such as, increasing the prices, relief on performance security, and demanding advance, was selected as being successful.
- (ii.) The capacity, qualifications and previous experience of the bidder had not been evaluated by the Technical Evaluation Committee in terms of Guideline 7.10.1 (b) of the Procurement Guidelines. An agreement had been entered into for supplying the entire stock of 800,000 ABH Forms by 31 January 2018 at the cost of Rs. 6,387,500. Nevertheless, only 208,000 ABH Forms had been supplied even by 02 March 2018; hence, with a view to minimizing the dearth, 100,000 ABH Forms had been printed without following the procurement procedure at a cost of Rs. 799,000 through the institution to which the printing order of the preceding year had been awarded.

(f) Project for Obtaining Photographs and Fingerprints of the Members (Phase 3)

The first and second phases of the said project had been implemented in the years 2008/2009 and 2010/2011 respectively with the objective of providing the members with efficient and reliable service. The third phase thereof had been scheduled to be commenced in the year 2015. The following observations are made in that connection.

- (i.) The first and second phases of the said project had not been launched under a proper plan by carrying out a Cost-Benefit Analysis and a Feasibility Study. A project report and a project plan relating to the third phase of the project had not been made available to the Audit. Moreover, evidence to the effect that the progress of first and second phases had been reviewed prior to implementation of the third phase, was not made available to the Audit.
- (ii.) Specifications had been prepared to implement the third phase of the project under 02 components. It had been scheduled to purchase the relevant instruments under component I whereas collecting photographs and fingerprints, data capture or rather, had been scheduled in component II. A bidder had been selected to implement both components of the third phase. Accordingly, some of the instruments had been purchased on 15 May 2017 incurring a sum of Rs. 16,557,085, but the project could not be implemented due to reasons relating to phase II of the project such as, failure to prepare estimates properly, failure to evaluate the capacity of bidders by identifying evaluation criteria, failure to sign memorandum of understanding in regard to the matters agreed upon at the discussions, and failure to enter into an agreement relating to implementation of the project. The said instruments remained idle at the stores even by 31 May 2018.

- (iii.) According to the bid documents, 90 per cent of the payment should be made after the supply, installation, and implementation of the instruments whereas the balance 10 per cent of the payment would be made after the collection of photographs and fingerprints of the 1000 members. However, the total value of the instruments amounting to Rs. 16,557,085 had been paid in full although the instruments had only been supplied.
- (iv.) As provision had been made without identifying the actual requirement and preparing plans, an amount ranging from 85 per cent to 100 per cent of the provision made through annual estimates for the said project relating to the period 2015 – 2017, had been transferred to other Objects whilst 15 per cent – 100 per cent of the provision had been saved.
- (v.) As the Technical Evaluation Committee had not comprised of a subject specialist in terms of Guideline 2.8.1 (b) of the Procurement Guidelines, the assistance of an expert in the subject had to be obtained to examine the compliance and quality of the instruments (goods and software).
- (vi.) A bid evaluation report should have been prepared by the Technical Evaluation Committee in terms of Guideline 7.11.1 of the Procurement Guidelines. However, it had not been done so.

6.3 Internal Audit

An independent Internal Audit Unit had not been established in the Employees’ Provident Fund. The internal audits of the Employees’ Provident Fund Division of the Central Bank of Sri Lanka had been carried out through an external audit firm. The approved cadre and actual cadre of the Internal Audit Unit of the Department of Labour that administered the Fund, were 14 and 08 respectively. Due to inadequacy of actual cadre, given the 57 regional offices of the Department and the sheer number of transactions taking place, it was observed that attention had not been brought sufficiently on the auditing of the Fund. Even though directives had been issued continuously since the year 2013 at the meetings of the Public Accounts Committee that internal audit of the Department be strengthened, action had not been taken accordingly to carry out audits by attaching an adequate staff.

6.4 Recommendations of the Public Accounts Committee and Current Progress

Directive No.

Recommendation and Current Progress

- | ----- | ----- |
|------------------------------------|--|
| a) No. 08, dated 26 February 2016. | Instructions had been issued that a proper plan should be formulated for the 10 ensuing years with the corporation of all the institutions in order to proceed with the activities of the Employees’ Provident Fund. However, it was revealed at the meetings held with the participation of 07 institutions that it was not possible to link all the institutions for the implementation of 10 year plan of the Employees’ Provident Fund owing to the fact that the databases, benefit schemes, and Information Systems of different institutions could not be interlinked as each institution had been established with different objectives. |

- b) No. 09, dated 26 February 2016. In order to improve the Information Technology processes of the Fund, instructions had been issued that a report on the possibility of developing a single computer software in conjunction with the Department of Labour and Central Bank of Sri Lanka, be presented to the Committee before 23 March 2016. Accordingly, the Audit was informed by the Deputy Governor of the Central Bank of Sri Lanka that an agreement had been entered into for providing technical assistance through the Capital Market Development Programme being implemented under the loans granted to the Government by the Asian Development Bank.

7. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Commissioner General of Labour and Governor of the Central Bank of Sri Lanka from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls

Observation

- | Areas of Systems and Controls | Observation |
|--|--|
| a) Crediting Contributions to the Members' Accounts. | Failure to prepare a methodology to credit the contributions that had not been credited to the personal accounts of the members of the Fund, to the relevant accounts immediately, and promptly pay the retained benefits to the relevant parties. |
| b) Management of the Investments. | Failure to optimally invest the funds ensuring higher benefits for the members. |
| c) Internal Audit. | Failure to recruit a qualified and adequate staff for internal audit and carrying out internal audits covering all the areas. |
| d) Preparation of Bank Reconciliation Statements. | Failure to take action to settle the account balances that had not been settled over extensive periods. |
| e) Procurements. | Failure to make procurements in compliance with Procurement Guidelines. |