

## **Sri Lanka Social Security Board - 2017**

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The audit of financial statements of the Sri Lanka Social Security Board for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of financial performance, 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 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. A detailed report in terms of Section 13(7)(a) of the Finance Act was furnished to the Chairman of the Board on 19 September 2018.

### **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). 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.

## **2. Financial Statements**

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### **2.1 Opinion**

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In my opinion, the financial statements give a true and fair view of the financial position of the Sri Lanka Social Security Board as at 31 December 2017 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**

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#### **2.2.1 Lack of Evidence for Audit**

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Details including the names of the persons payable, relating to Rs.1,797,389 shown as accrued incentive under other liabilities was not made available for audit.

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

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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**

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### **3.1 Financial Results**

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According to the financial statements presented, the operations of the Board for the year under review had resulted in a deficit of Rs. 7,714,628 as compared with the corresponding deficit of Rs. 705,269 in the preceding year, thus indicating a deterioration in the financial results by Rs.7,009,359. The increase of salaries and allowances by Rs. 5,156,806 and the increase of vehicle leasing expenditure by Rs. 2,928,667 had mainly attributed for the above deterioration.

In the analysis of the financial results for the year under review and 04 preceding years, it had financial surplus in the years 2013 and 2014. Nevertheless, it had again converted into a deficit of Rs.1,596,828 in the years 2015 and Rs.705,269 in 2016. The financial result of 2017 had further deteriorated to Rs.7,714,628. However, after adjusting the employees' remuneration and depreciation for non-current assets, the contribution of the Board which was Rs.69,679,613 in the year 2013 had improved contentiously till 2015 and it had again deteriorated in 2016 and was Rs.77,844,967 in 2017.

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Planning**

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##### **Corporate plan**

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Weakness and limitations which were identified in the Corporate Plan for the years 2014 to 2016 prepared by the Authority had still been included into the Corporate Plan prepared for the years 2017-2019 and therefore it was observed that the Authority could not resolve those issue in last four years.

#### **4.1.2 Performing and review**

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The following observations are made

##### a) Action Plan

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The Authority had taken approval of the Board of Directors for the Action Plan of the year under the review on 29 December 2016. Eight main activities and thirty four sub activities were included in the Action Plan. Even though main indicators had been prepared for these activities, following activities had not been implemented in the year under review and in the preceding year.

- (i) Even though it was main target to enroll 50,000 contributors to increase the total contributors of the Pensions and Social Security Benefit Scheme by 50 per cent during the year under review, unable to identify the number of active contributors and the number of contributors who had rights for pensions as on 31st December.
- (ii) Collaborating with departments and government statutory institutions implementation of a social security scheme, for two groups identified through the political agents, foreign employees, plantation workers and government subsidiary receivers.
- (iii) Introducing and implementing of 05 Social Services Schemes during the year under review.
- (iv) Establishment of media unit for expansion of publicity and promotion activities to update knowledge of contributors on Social Security Scheme with the objectives of expanding Social Security Scheme in the country and enroll more contributors in to the Social Security Scheme.

- (v) To introduce efficient payment scheme to the pensioners through government and private banks, open 20,000 bank accounts and out of that, open fifty per cent accounts equivalent to 10,000 accounts during the year on the review.

b) Enroll Contributors for the Social Security Scheme, Issue Deeds and dormant.

- (i) 63,141 contributors had been enrolled to the 'Surakuma' and 'Arassawa' Social Security Schemes in the year 2017 and out of that, 8,164 contributors for 'Surakuma' scheme and 54,977 contributors for the 'Arassawa' scheme had been Enrolled. Enrollment had decreased by twelve per cent as compared with preceding year.
- (ii) Even though 63,141 new contributors enrolled, out of that deeds had not been issued for twenty four per cent of contributors equivalent to 15,759 as on 31 December 2017. Out of total employees of the Board seventy per cent employees had been allocated to the Social Security Section the performance remain in very low level.
- (iii) Even though the total number of contributors enrolled for the Pension Schemes by the Board as at 31 December 2017 stood at 628,786, out of that, the number of dormant contributors as at 31 December 2014 had been identified as 288,234. However, due to weakness of the system, the board could not recognize the dormancies from January 2015 to September 2018 and 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.
- (iv) The total receipt of contributions in the year 2017 amounted to Rs.196,961,410 and the total payments for the contributors amounted to Rs.306,232,747. The balance of the Pensions Fund by 31 December 2017 amounted to Rs.2,178,568,478 and the total investment value of the Board as at that date amounted to Rs.1,988,549,227. In the analysis of information of last years, it was observed that decrease in receipt of contribution to the Pensions Fund and increase in pension payment expenses.
- (v) Cancellation of membership and repayment of contributions had been Rs.38,055,553 for 1979 contributors in the year under review. 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.
- (vi) Receipt books issued to the coordinating officers to collect money, when recruiting contributors by the board had not been returned back to the stores after use. Accordingly, 1685 receipt books issued for 16 districts had been used but had not been returned to the stores while collecting new books during the year under review.

c) Failures in achievement objectives of the Act

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The following activities mentioned in the Social Security Board (amended) Act No. 33 of 1999 had not been implemented by the board during the year under review.

- (i) Motivation of self-employees and enhance their abilities and skills.

- (ii) Motivation of young people for self-employments and enhance their abilities and skills
- (iii) Awareness of self employees on benefits of resource Management and thrift.
- (iv) Improvement of living condition of self-employees

## 4.2 Management Activities

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The following observations are made.

- a) Even though the board had spent a sum of Rs.23,947,068 from the pension fund and install a computer system in 2014 weakness such as failure in obtaining information on contributors, problems in obtaining reports due to operating both the old and new computer systems, data entering facilities and lack of security control over avoiding frauds at the data entering.  
The Board had informed that new system will be installed to avoid this all deficiencies but even as at 31 August 2018 it could not be implemented.
- b) A sum of Rs.1,797,389 was liable as incentive for officers contributed for recruitment of contributors and collect installments through the Divisional Secretariat Offices since 2014.
- c) Out of the total collections a sum of Rs.1,270,485 received from the contributors of the board in last thirteen years, from year 2004 to year 2016, had been shown as unidentified deposits as the contributors were unable to identify now due to inactive condition of the computer system in 2015. Due to contributors and banks had not taken action to inform whilst depositing contribution money in the bank, a sum totalling Rs. 9,064,310 including a sum of Rs. 7,793,825 year under review had been accounted as unidentified deposits.
- (d) Forty four Coordinating Officers and Nineteen Management Assistants had been appointed in 25 District Secretariat Offices. Eventhough, Coordinating Officials should aware Grama Niladhari on recruitment activities, handle the promotion activities, remit contribution collections to the Board with no delays and coordinate installment collections, but due to those officers were engaged with direct recruitment activities progress of above mentioned activities had remain in a low level. As well, supervision and monitoring of Coordinating Officers had not been done by the Management of the Board.
- (e) A sum totalling Rs.8,150,946 including a sum of Rs. 5,600,000 from the procurement plan in the year under review and the sum of Rs.2, 550,946 from the preceding year capital grant had been provided in the procurement plan to procure a software system for Social Pension Scheme. However, procurement works had not been completed during the under review and in the procurement activities till selecting a supplier had only been completed as of 30 July 2018. However, two and half years had spent in this regard but still the computer system could not be procured and hence, the activity of the Social Security Pension Fund could not be properly carried out.

## 5. Achievement of Sustainable Development Goals

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Every public institution should act in compliance with the United Nations Sustainable Development Agenda for the year 2030. Sri Lanka Social Security Board had been aware as to how to take measures relating to the activities under the preview of their scope in respect of the year under review.

## 6. Accountability and good governance

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### 6.1 Procurement

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Even though the board had prepared a procurement plan not comply with the format stipulated in 4.2.1 of the procurement guidelines. Also, had not followed chronological order and had not segregated works as Civil works, goods, and other services and also due to the plan had not regularly been monitored and updated, out of the total capital grant of Rs.7,530,000 received from the treasury 73.55 per cent equalent to a sum of Rs.5,537,663 had under utilized during the year.

### 6.2 Budgetary Control

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Variances between the budgeted and the actual income and expenditure ranging from 35 per cent to 100 per cent were observed, thus indicating that the Budget had not been made use of as an effective instrument of management control.

## 7. 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 Chairman of the Board 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>  |
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| (a) Management of Contributions      | i. Delay in issuing deeds in recruiting contributors.<br><br>ii Failure in identifying the dormant contributors conclusively.<br><br>iii A definite methodology to identify the contributor is not available in recording the instalments collected by Banks and therefore, a sum of Rs.9,164,309 remained as identified deposits. |
| (b) Issuing Receipt books            | Not having definite methodology to issue and collect receipt books.  |

(c) Computerization

Failure in duly identifying the persons who entitled to obtain pensions due to the existing computer system is not matched with the requirements of the Board.