

1. Opinion

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Social Security Board for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 in conjunction with provisions of the National Audit Act No.19 of 2018 and Finance Act No.38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Council as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Council or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

As per Section 16(1) of the National Audit Act No.19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Board.

1.4 Scope of Audit

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Board to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following:

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board.
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls, sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to relevant standard

As the useful life of non-current assets are not reviewed annually, fixed assets costing Rs.9,961,979 have been fully depreciated but still are being used. Accordingly, action had not been taken to revise the estimated error arose in terms of Sri Lanka Public Sector Accounting Standard 3.

Management’s comment

As mentioned by audit, if transactions effect the financial statements in terms of Sri Lanka Public Sector Accounting Standard 3, exist action will be taken to update accounting policies accordingly.

Recommendation

Need to be complied with Sri Lanka Public Sector Accounting Standards.

1.5.3 Accounting Deficiencies

Audit observation

Without making adjustments under the accrued incentives paid in respect of enrolment of contributors during the previous year amounting to Rs.4,069,526, it had been charged to Social Security Fund in the year under review. As a result, the year's profit had been understated by that amount.

Management's comment

The sum of Rs.4,069,526 paid as incentives was payable relating to the enrolments and collection of instalments. It had been calculated and actually paid in the year 2018. At the time of preparing final accounts in the year 2017, it had not been recognised as an accrued expense, and it had to be paid to an another party, payments had been made as an actual expense of the year 2017.

Recommendation

In recognizing expenses, the relevant period needs to be determined correctly and account accordingly.

1.5.5 Lack of Evidence for Audit

Item	Amount	Evidence not made available	Management's Comment	Recommendation
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	Rs.			
(a) Accrued incentives	1,794,756	Even though, a sum of Rs.1,794,756 had been disclosed in the financial statements of the year under review as accrued incentives the Board had not maintained a detailed register indicating names of persons payable, amount and other particulars.	It was informed that this balance was identified as an over provision and action had been taken to omit this amount from accounts in accordance with the Board paper No.2019/242/5	By identifying the requirement of such provisions, necessary changes need to be made.

(b) Incentives 9,439,135	Even though, a sum of Rs.9,439,135 had been paid as incentives in the year under review, documentary evidence had not been obtained to ensure whether this money had been obtained from relevant persons.	It was informed that these payments along with a record had been referred to the Divisional Secretaries and District coordinating officers.	In making payments, it needs to be ensured that the correct amount is received by the correct person.
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1.5.5 Accounts Receivable

Audit observation

A sum of Rs.441,146 was due from 28 officers left the Board as at 31 December of the year under review and it included 5 balances remained for more than 6 years.

Management's comment

Amounts receivable spread over 2012 to 2016 and it had been separately identified in the year 2018. Necessary action has been taken to recover the balances that can be further recoverable. It was also informed that in considering its progress, it would be referred to the Board of Directors for instructions of the manner how to take future action with regard to amounts which could not be recovered anyhow.

Recommendation

Receivable balances need to be recovered by the Board without delay.

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

Reference to Laws, Rules etc.

Management's Comment

Recommendation

(a) In terms of Section 15(2) of the Sri Lanka Social Security Board Act No.17 of 1996, when benefit is deprived of, the Board needs to inform it to that	It was informed that there was no ability to obtain dormant contributor registers due to being inactivated the monthly run task of computer system since 2014 and as	As the main task of the Board is the implementation of this pensions scheme action need to be taken immediately to update and maintain the data system.
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contributor. Number of such it was unable to issue dormant contributors as at dormant intimations to each 31 December 2014, the contributor. the date of inactivated the system amounted to 288,234. However, as the system was not available to identify dormant contributors, from the year 2015 to March 2019 it could not be informed to those contributors thereon.

- (b) In terms of Section 6(a)(1) of the Sri Lanka Social Security Board Act No.33 of 1999, the Minister shall appoint a Technical Consultancy Committee consists of not more than 9 persons, out of persons those who have experience in such fields as Social Security, Social Welfare, Insurance, actuarial assessment, administration, finance or management or persons shown their abilities such a committee had not been appointed after 2017.
- It was informed that the appointment of a committee, covering the fields stated in the Act is due.
- As this committee assist to achieve the objectives of the Board, action needs to be taken to appoint this committee soon.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a deficit of Rs.3,126,602 as compared with the deficit of Rs.7,714,627 in the preceding year. Accordingly, an improvement of Rs.4,552,025 in the financial results was observed. The increase of receipt of Treasury grants had mainly attributed to this improvement.

3. Operating Review

3.1 Management Inefficiencies

Audit observation	Management's comment	Recommendation
(a) Under the Pensions and Social Security Benefit Scheme, 82,836 persons had been enrolled for 2 Social Security Schemes denoted as "good care" and "safety" in 25 districts as at 31 December of the year under review under direct recruitments. However, the total number of contributors enrolled in Polonnaruwa, Ratnapura, Colombo and Trincomalee Districts during the year had been at a low level as 500, as the awareness was not made appropriately.	The highest number of recruitment of members can be recorded during the year under review in the history of the Social Security Board. However, the progress of the observed Colombo, Ratnapura, Polonnaruwa and Trincomalee Districts had existed at a very low level. Instructions have been given to the coordinating officers attached to those districts to improve the progress and warned them in calling to Head Office. It was able to show a certain progress only in Trincomalee District.	Instructions need to be given to coordinators and the follow up thereon needs to be done as well.
(b) During the year under review 82,826 overall members had been enrolled. Of them, the total number of contributors enrolled during the first 11 months amounted to 40,313 but action had been taken to enrol 40,028 members only in the month of December. Same position existed in the previous year as well and the attention of the Board of Directors was drawn at the meeting held on 11 January 2018 thereon and stated that this issue causes many problems and the members need to be made aware during the first quarter of the year and instructions to be given accordingly. As attention is not paid in that connection, the same position existed in the year under review as well.	Continuous attention on enrolments of more members during the last quarter of the year, in enrolments and its problematic consequence was drawn. It was informed that all district officers were made aware about this in writing.	Follow up needs to be done to maintain the continuous payment of instalments, rather than considering competition in the enrolment of members.
(c) Even though, action had been taken to implement a pilot project in order to	It was scheduled to conduct the pilot project on	It is the responsibility of the management to

activate the inactivated members at the meeting of the Board of Directors met on 11 January 2018, its progress had not been made available to the Board of Directors even by May 2019.

inactivated contributors to become activated contributors in the year under review (2018) based on Nuwaraeliya district and there was a certain delay. The Grama Niladharies were departed from the scheme, by now and as such it was further delayed.

take necessary steps for the achievement of the relevant project.

(d) Contributors have been enrolled for the pension scheme and functions such as whether contributors pay their instalments regularly, sending intimations/ reminders to contributors in respect of recovery of instalments, checking the recovery of instalments etc. have been included in the assignment of duties of the District Coordinators. Nevertheless, action had not been taken accordingly to minimise the contributors become dormant.

On the inability of obtaining correct dormant members list from the computer system, it could not be achieved. It will be started since the end of the year 2019 once the new system is installed.

Necessary action needs to operate the computer system of the Board in an updated manner soon and to minimise the contributors became dormant.

(e) The Ministry of Cultural Affairs had granted sums of Rs.29,000,000 in the year 2017 and Rs.65,000,000 in the year 2017, totalling Rs.94,000,000 in order to pay a pension to Artists under the Social Security Scheme, to the Board. Payment of pensions had not been commenced from these funds but earning in come from the investment of this money only had been done. Accordingly, action had not been taken to provide the intended service from the funds received, within the two years.

Sums of Rs.29,000,000 in the year 2016 and Rs.65,000,000 had been granted to the Board. A provision of Rs.50,000 is made from the interest income received annually from the invest of this money. The amount so provided, is deposited in the name of the relevant Artist and the total income earned thereon is paid to the artist as a total amount when he retires. Investment had been made in accordance with the agreement. By now, 113 Artists have taken membership of this scheme and the money had been provided in this regard as specified.

The Boards needs to comply with the memorandum of understanding entered into with the Ministry of Cultural Affairs.

3.2 Under-utilization of Funds

Audit observation

Out of the Treasury capital grants received within the period of 3 years, a sum of Rs.12,511,000 had been retained by making aware of the Treasury for the purchase of Social Security Pensions Management Information System. However, this amount had remained underutilized as the information system had not been purchased during the 3 years.

Management's comment

A new computer system was intended to be purchased by the year 2016 and a sum of Rs.2,497,000 had been retained from the capital grants received from the Treasury. The approval of the Secretary was obtained in the year 2017 and started the procurement process. By that time, only the capital provisions received in the year 2016 had been retained. The procurement process had been initiated in the year 2017 and therefore, the capital provisions received in that year had also been retained. As agreements had been signed with the Epic Lanka in the year 2018, the capital provisions of the year 2018 had been retained for making payments. Of this money 10% of the total amount had been paid to the Epic Lanka on 14.02.2019 for the first set of supply, and the payment for the second set of supply is due in due course.

Recommendation

Expedite the performance of this task and take action to prevent in under-utilizing Treasury provisions.

3.3 Under-utilisation of Assets

Audit observation	Management's comment	Recommendation
----- Two documentary films in respect of the publicity of Social Security Pensions Scheme had been produced in the year 2014 and produced 6500 DVDs in trilingual by incurring an expense of Rs.824,000. However, 4,762 DVDs of them had remained idle in the store without being issued for a period of 5 years, as they had not been distributed as planned.	----- It's interior composition is not in a position of using publicity at present and it was informed that requests to issue such DVD had not been made to the store after the year 2015.	----- In deciding a publicity affair programs need to be designed by paying attention on the requirement.

3.4 Uneconomic Transactions

Audit observation	Management's comment	Recommendation
----- Without making provision for required funds and without following the procurement process, a building had been purchased in the year 2013 for operating the Head Office of the Board by incurring an expenditure of Rs.195,000,000 from the Pensions Fund in excess of the government valuation of Rs.165,000,000. Even though, 5 years had lapsed after being purchased the building by the year under review, a formal inquiry had not been carried out in this regard and identified the persons responsible for this over payment.	----- Even though, the stages of procurement process relevant to the purchase of this building viz, calling for quotations, appointment of Technical Evaluation Committee, obtaining committee recommendations, referred to the Ministry of Finance and Planning for approval had been followed, it was informed that the approval of the procurement committee had not been obtained.	----- By carrying out a formal inquiry in respect of the purchase of building, identify the responsible persons when an overpayment had been paid and recover the overpayment.

3.5 Procurement Management

Audit observation

A provision of Rs.12,511,000 had been made by the year 2018 for the purchase of a Social Security Pensions Management Information System by the Board. By following the formal procurement procedure by the Board a supplier had been selected and entered in to an agreement in the year under review. According to the agreement, the system installation had been commenced since June of the year under review. It was planned to handover this Management Information System to the Board consisting of 5 sets of supplies by August 2019. According to that plan, the first the second and the third set of supplies need to be handed over on 14 December, 08 February 2019 and 10 April 2019 respectively. Accordingly, payments to the supplier and the system study need to be completed. Nevertheless, the first set of supply had been handed over on 24 December of the year under review but the Board had failed to obtain the second and the third set of supplies even by 03 May 2019.

Management's comment

It was informed that setting detailed system requirement specifications relating to the second set of supply and error correction is being already done and 75 per cent of the second set of supply is already completed. Even though, an additional time is spent on this second set of supply subjected to delay, the software system time frame given by the Epic Lanka in the second time will be supplied on the agreed date itself as verbally informed by the Epic Lanka.

Recommendation

Having being set the Social Security Pensions Management Information System soon, by the Board, functions cover with that system need to be performed soon.

3.6 Human Resources Management

Audit observation	Management's comment	Recommendation
<p>(a) The post of the General Manager of the Social Security Board had fallen vacant since 15 July 2018 and the Deputy General Manager had been appointed to cover up duties since 16 July 2018. Similarly on the result of the interview held on 25 September 2018 for the recruitment of this post, the interview Board had recommended to appoint an applicant for this post. In terms of Section 1.3.3 of Chapter ii of the Establishments Code, an acting appointment can be made until a permanent appointment is made as a temporary measure and if the service of a full time officer is required, the permanent post needs to be filled immediately. Nevertheless, without being recruited the selected officer, covering up duties is being done even for 9 months.</p>	<p>It was informed that as this post is vacant for a long time, this decision has been given by the Board of Directors. Subject to that approval action is being taken to appoint a retired SLAS officer for this post.</p>	<p>General Managers post of the Board is vacant for nearly one year recruitment needs to be made soon.</p>
<p>(b) By 31 December Of the year under review, one computer network Assistant post, 7 management assistant posts, one book keeper post and 3 coordinating officer posts approved by the Department of Management Services had fallen vacant. Accordingly, it was observed in audit that delays in the recruitments of 12 approved posts effect the social security functions.</p>	<p>Recruitments have been made for the vacant posts existed by December 2018 on 02.05.2019. Even though the approved for the recruitment of the post of computer network Assistant approved by the Department of management services, the approval of the Department of Management services for the relevant scheme of recruitment is not yet received having being approved. It was therefore informed that the next step could not be taken for the recruitment.</p>	<p>In order to non-interference for the operations of the Board, officers need to be recruited for necessary posts without delays.</p>

4. Accountability and Good Governance

4.1 Corporate Plan

Audit observation

Topics stated as weaknesses and interruptions in the corporate plan prepared by the Board for the period 2016-2018 and 2017-2019 had been included again in the corporate plan prepared for the period 2018-2020 as well. The Board had not taken necessary steps to resolve such weaknesses within the past 3 years.

Management's comment

Settling the new computer system is already been started and it was informed that those issues can be initiated properly by the end of the year 2019.

Recommendation

Action needs to be taken to fulfil the matters include in the corporate plan.

4.2 Annual Action Plan

Audit observation

Fore basic objectives are included in the action plan prepared for the year under review and 13 sub-activities are included therein. Of those functions, the implementation of Social Security Systems in the year under review, commencement of integrated programs with external parties under the members promotion, recruitment of 322 officers under recruitment of one officer for each Divisional Secretariat, installation of the optimum information system under the simplification formalisation and expedite the benefit entitlement could not be achieved.

Management's comment

The Hon. Minister had given instruction, being discussed with the then Minister of Social Empowerment that the recruitment of this staff on contract basis is not appropriate and 350 officers are attached to our Board from trained graduates proposed to be attached to the Department of Samurdhi Development. Moreover as the scope of our Board is very wide and complex, more time needs to be spent than the expected time for the system study. Accordingly, it was informed that a new project time frame had been prepared and sent it along with the letter presented with reasons for delay.

Recommendation

Action needs to be taken to include only objectives which can be achieved in the action plan and to perform the stated objectives.

4.3 Budgetary Control

Audit observation

As variances ranging from 03 per cent to 85 per cent between the budgeted revenue and expenditure and the actuals it was observed that the budget had not been made use of as an effective instrument of management control.

Management's comment

This happened as a part of provisions approved for the year 2017 had not been released by the Department of Treasury Operations and the expenses of the year 2017 need to be incurred from the provisions received for the year 2018. It was therefore informed that even though a provision of Rs.130 million was shown in the expenditure heads of 2018, the actual expenditure incurred was the balance after being deducted the expenditure incurred related to the year 2017. As such variances have arisen.

Recommendation

Action needs to be taken by the Board to minimise the variances between the budgeted income and expenditure and the actuals.