

Employees' Provident Fund – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Employees' Provident Fund for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the income and expenditure statement, 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 read in conjunction with provisions of the National Audit Act, No. 19 of 2018 and the 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 financial statements give a true and fair view of the financial position of the Employees' Provident Fund as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 Accounting Standards and for such internal control as management determines 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

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

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Fund 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 Fund.

1.4 Scope of Audit (Auditor's Responsibility for Audit of Financial Statements)

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 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 Fund'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 Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements 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 audit report. However, future events or conditions may cause the Fund 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 Fund and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund ;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund 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 Non-compliance with Sri Lanka Accounting Standards

Non-compliance Reference Standard	with relevant Management	Comments of the Management	Recommendation
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<p>In terms of SLAS 16, the fixed assets costing Rs.76,656,104 had been fully depreciated as at 31 December 2018 as the useful life of non-current assets had not been reviewed annually. However, they had still been in use. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 8.</p>	<p>In terms of Sri Lanka Accounting Standard 16, action will be taken to revalue and account the relevant assets.</p>	<p>In terms of the Standard, the useful life of non-current assets should be reviewed annually and adjustments for depreciation should be made accordingly.</p>
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1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>A sum of Rs.10,355 million recovered by filing cases against employers as at 31 December 2018, had been maintained for a long period in an account in the name of Commissioner of Labour. Further, action had not been taken to credit a sum of Rs.301 million that had been retained as at that date in a General Deposit Account after being recovered by filing cases until being settled, to each members' accounts. Furthermore, a sum of Rs. 853 million as being retained and unclaimed benefits, and a sum of Rs. 1,796 million as being U/P, O/P contributions, had been shown in the Members' Fund as at 31 December 2018. However, no action had been taken to identify and settle those balances.</p>	<p>The amount credited to the Account of the Commissioner of Labour during the year 2018 had been Rs.8,436 million and a sum of Rs.8,910 million had been settled during the year. General deposits with the balance of Rs.248 million by 28.05.2019 are being settled daily and necessary action has been taken to settle them speedily.</p> <p>It is compulsory for employers who have more than 50 members at present, to pay contributions by electronic media to minimize errors / weaknesses in the system of payment of contributions.</p> <p>In the instances of returning benefits paid to members due to errors in information on bank accounts, those are remitted to the "Unclaimed Account" until remitted again to settled accounts. After settling those errors, action is taken to pay money on the recommendations of the Central bank.</p> <p>Benefits of deceased members, existed in the retained account could be paid only after being informed the amount retained and the recipients payable by determination letters of the Commissioner of Labour.</p>	<p>The Fund should take action to prepare an efficient procedure to settle unsettled contribution without delay.</p>

(b) A sum totaling Rs.1,035 million had been shown as balances in the bank reconciliation statements over a period of 12 years comprising of returned cheques, deposited cheques returned and deposited cheques, relating to 07 bank accounts maintained by the Fund. Further, a sum totaling Rs.1,563 million had been shown as unrealized money orders that had been deposited, unrealized cheques and un-presented cheques despite being issued. Nevertheless, no action had been taken to identify and adjust those items.

Unsettled balances remained as at 31 December 2018 in bank reconciliation statements are being settled and there is a delay in projects implemented regarding bank reconciliations due to being engaged in special investigations and providing facilities and information required therefor.

An appropriate procedure should be formulated to identify and settle unsettled bank balances expeditiously.

(c) In the computation of expenditure on taxes and tax liabilities in last 3 quarters of the year 2018, the amortization gain on Treasury Bonds had been over computed by Rs.4,807,290,569. As such, expenditure on taxes and tax liabilities of the year had been overstated by Rs.673,020,680.

Rectification in the relevant estimate will be adjusted to accounts of the year 2019. Further, it has been rectified in the preparation of final income tax return for the year 2018. Moreover, no over payments for any income tax relating to the year 2018 had been made to the Department of Inland Revenue.

The Fund should take action to compute expenditure on taxes and tax liabilities in a correct manner.

1.5.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of Management	the Recommendation
<p>According to financial statements, the balance of 04 categories of fixed assets as at 31 December 2018 amounted to Rs.900,608,654 whilst according to the schedule of provisions for depreciation, those balances totaled Rs.556,974,678, thus observing a difference of Rs.343,633,976.</p>	<p>Differences pointed out have been identified by now and it is expected to make relevant adjustments therefor through financial statements in the future.</p>	<p>The Fund should take action to indicate the correct value of fixed assets in the financial statements.</p>

1.6 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of Management	the Recommendation
<p>Section 8.7 of the Public Enterprises Circular No. PED 12 of 02 June 2003, Letter No.PE/COP/POLI/ Circulars and of 29 April 2016 of the Ministry of Finance and Public Enterprises Circular No. 03/2016</p>	<p>Pay As You Earn Tax on the revenue of officers of the Central Bank of Sri Lanka attached to the Fund, had not been recovered from relevant officers and instead, a sum of Rs.20,947,681 had been paid by the Fund in the year under review. Despite being informed at the Committee on Public Accounts, held on 26 February 2016 that a proper methodology and a procedure for updating be formulated by discussing with the Secretary to the Ministry of Finance in compliance with instructions of the budget for the year 2016 and</p>	<p>The Monetary Board has reached a decision to recover PAYE tax from the salary of employees from this year and PAYE taxes have been deducted from monthly salary of employees of the Central Bank of Sri Lanka with effect from 01.04.2019.</p>	<p>In terms of Circular instructions, action should be taken to pay PAYE tax.</p>

the Public Finance Circulars regarding the payment of Pay As You Earn Tax from the Fund, it had not been so done even by the end of year 2018.

2. Financial Review

2.1 Financial Results

The operating result for the year under review had been a profit of Rs.190,617 million as compared with the corresponding profit of Rs.202,947 million of the preceding year, thus observing a decline of Rs.12,330 million in the financial result. The increase in the expenditure on income tax of the Fund by Rs.11,823 million representing 63 per cent due to increase in tax rates under the Inland Revenue Tax Act, No.24 of 2017, had mainly attributed to the said decline.

In terms of Section 14 of the Employees’ Provident Fund Act, No.15 of 1958, interest benefits payable to members of the Fund had regularly declined from 13.75 per cent to 10.5 per cent from the year 2009 to 2014 and the said ratio had been maintained continuously from the year 2015 to 2017. However, the percentage of interest so paid in the year under review had declined up to 9.5 per cent and a sum of Rs.6,000 million had been obtained from the Profit Equalization Reserve in the year under review due to inadequate profit for the payment of the said percentage of interest.

3. Operating Review

3.1 Identified Losses

Audit Observation

Comments of the Management

Recommendation

A number of 15,000 cards prepared by spending Rs.12,609,750 and 05 Kiosk machines purchased at a cost of Rs.2,750,570 in December 2008 under the first phase of project of installation of Kiosk machines for the issue of identity cards for members and for examination of balances of accounts, had remained idle in stores. The total expenditure amounting to Rs.15,360,320 incurred therefor had become a loss to the Fund due to storing those printed cards for a period of 10 years and inoperative condition of machines from the date of purchase.

Replies have not been submitted.

The Fund should be responsible for taking action in incurring expenditure from the Members’ Fund in an efficient, effective and economic manner.

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) According to the new investment Guidelines of the Fund, a certain amount of investments made in Treasury Bonds and Bills should be held for the purpose of collection and selling (hold to collect and sell). However, it had been recorded that the investment made in Treasury Bonds and Bills amounting to Rs.2,119,231 million of the Fund as at 31 December 2018, as investments held up to maturity for collection of interest income (hold to collect). All Government securities are maintained by classifying as investments held up to maturity, thus the Fund had failed to earn financial benefits which could be obtained by selling them at the secondary market. Accordingly, capital gain on Treasury bonds in the years 2015 and 2016 had been Rs.1,171 million and Rs.612 million respectively. Nevertheless, capital gain on Treasury Bonds had not been earned in the years 2017 and 2018.</p>	<p>According to Section 2.3 of the Guidelines approved by the Monetary Board on 30 June 2018, Treasury Bills and Bonds are primarily purchased by the Employees' Provident Fund for collecting the interest income through holding those Bills and Bonds up to maturity. Moreover, according to Section 2.3, the Employees' Provident Fund had not granted approval to purchase Treasury Bills or Bonds with the expectation of short term profits. Accordingly, Treasury Bills or Bonds for "hold to collect & sell" can be purchased only for liquidation requirements or non-compliance with allocation of strategic resources (SAA) or for matters limited for risk management.</p>	<p>Action should be taken to manage funds to the optimum in terms of provisions of the Investment Policy Statement and Investment Guidelines of the Fund.</p>

- (b) The Fund had invested a sum of Rs. 5,000 million in the year 2013 for the construction of the Canvil Holdings Hotel Complex. Furthermore, it had been decided in accordance with the agreement of shareholders signed on 04 June 2013, to list the shares of the said Company with the share market by the end of the year 2015. However, the shares of the said Company had not been listed at the share market even by 31 December 2018 and the Deputy Governor of the Central Bank of Sri Lanka had informed that the Government had decided to withhold the construction activities of the Company.
- Construction activities of relevant companies had not been completed due to reasons deviating from the control of the EPF and accordingly, operations as well had not been commenced. Moreover, the relevant company is a state company belonging to the Ministry of Finance and Mass Media according to the Gazette Extraordinary issued on 28.12.2018, relevant decisions are taken by the Ministry of Finance. Accordingly, the due benefit on our investment is decided on the sales value decided by the Government.
- Action should be taken to make investments to the optimum so as to receive high benefits by members with minimum risks.
- (c) Even though a sum of Rs.3,607 million had been invested in 09 listed and unlisted companies from the year 2010 to the year 2014, no benefit whatsoever had been received by the Fund ever since the date of investment. It was further observed that among them the companies named, Palm Garden Hotels PLC, Ceylon Hotels Corporation PLC, Sri Lankan Air Lines and The Finance Company PLC had already been sustaining losses at the time of investing in those companies.
- Investments were made on long terms basis with the expectation of earning more profits in companies due to awakening of the entire economy specially in fields such as tourism and property with the end of war and as a result, increase in the price of relevant companies. However, the expected growth in the whole market could not be seen due to local and external matters occurred later.
- Action should be taken to make investments to the optimum so as to receive high benefits by members with minimum risks.

3.3 Operating Inefficiencies

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
<p>(a) A total expenditure of Rs.247,153,011 had been incurred by making financial provisions on the annual estimate of the Department of Labour from 2008 to 31 December 2018 under the Project on Re-registration of Members of which the first and second phases and the third phase were implemented in the years 2007/2008, 2010/2011 and the years 2016/2017 respectively. However, the number of members from whom finger prints were taken, as a percentage of estimated number of members had been 38 per cent, 25 per cent and 14 per cent under first, second and third phases respectively. As such, the progress achieved had been at a weak level.</p>	<p>Even though the Project on Re-registration of Members by obtaining finger prints and photographs of members of the Employees' Provident Fund was expected to be carried out by an external institution, an external institution could not be obtained for supply of services. As such, it was decided to commence activities of collecting data by visiting institutions engaging the Departmental staff for this Project. However, this function is an additional duty assigned to the Departmental staff. As such, the said officers were unable to engage full time in this Project and as a result, the expected targets could not be reached.</p>	<p>In incurring expenses from the Members' Fund, attention should be paid in achieving the relevant progress by acting efficiently and productively and economically.</p>
<p>(b) Out of 30 machines purchased by spending a sum of Rs.14,917,500 in the year 2015 under the second phase of the Project on Installation of Kiosk Machines, 10 machines had remained inoperative as at 31 December 2018. As such, the benefits expected from the Project could not be achieved.</p>	<p>Out of 30 Kiosk machines purchased in the year 2015, twenty machines are in operative condition as at 31 December 2018.</p>	<p>Measures necessary for the success of the Project should be followed.</p>
<p>(c) Out of benefit applications submitted during the period from 01 January 2016 to 31 December 2018 to 18 District</p>	<p>In the instance of applying for benefits by a certain member, a considerable period is taken due to</p>	<p>Every possible step should be taken to provide benefits to members without delay.</p>

Labour Offices by members for gaining benefits, 112 applications for which a sum of Rs.17,923,106 had been applied, had been referred to the Central Bank of Sri Lanka for payments and afterwards had been rejected for various reasons. Out of those applications, the period lapsed relating to 90 applications (80 per cent) from the date of submitting them up to 01 March 2019 had increased from 06 months to 03 years. However, action had not been taken to settle them.

matters such as the differences between information in the data system of the Department of Labour and the information in the data system of the Central Bank of Sri Lanka, making changes in members' accounts as a result of errors occurred in crediting contributions by employers and in instances where the date of termination of service mentioned in the benefit application by the member is different, relevant corrections should be made by calling for information from the institution.

(d) According to the Annual Report of the Central Bank of Sri Lanka, the number of active members who had obtained membership of the Employees' Provident Fund out of 3,727,217 reported as the total employment of the private sector and the semi Government sector by the end of the year 2018, was 2,559,319 representing 68.7 per cent. The percentage of employees who are members of other approved Provident Funds was only 9.7 per cent and as such, the remaining number of 21.6 per cent had not contributed to any Fund. It was observed that more attention should be paid towards providing these persons with membership of the Fund.

Measures such as providing publicity through television commercials, radio commercials and conducting awareness activities through mobile services had been taken in the year 2018 for making the people aware of matters relating to providing membership of the Employees' Provident Fund who had not contributed to any Fund whatsoever and the legal background relating thereto.

An arrangement should be made by the Fund by paying attention towards formulating a system to provide membership of the Fund to a maximum number of employees of the private sector and the semi Government sector.

(e) The number of employers registered only in the Employees' Trust Fund Board without registering in the Employees' Provident Fund as at 31 December 2018 stood at 14,156 and the contributions received to the Employees' Trust Fund Board from the said employers as at that date totaled Rs.148,366,135. Accordingly, a suitable arrangement had not been made for registering the said employers in the Fund by joining with the Employees' Trust Fund Board.

Even though provisions had not been made by the Employees' Provident Fund Act for contributing towards the Employees' Provident Fund for persons engaged in self-employment, according to the Employees' Trust Fund Act, provisions had been made for persons engaged in self-employment to contribute to the Employees' Trust Fund. Accordingly, it is informed that persons who are engaged in self-employment as well are included in the number of employers registered only in the Employees' Trust Fund without registering in the Employees' Provident Fund.

An arrangement should be made to provide membership of the Employees' Provident Fund for members who are registered only in the Employees' Trust Fund Board (who are not engaged in self-employment)

3.4 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
<p>Twenty four Lap Top computers purchased in the year 2018 by spending Rs.3,261,600 under the Project on Re-registration of Members for the Employees' Provident Fund, had remained idle in the stores even by 23 May 2019 without distributing to relevant offices.</p>	<p>Even though procurement activities had been commenced in the year 2018 for purchase of a number of equipment such as Lap Top computers, software relating thereto, scanners, cameras etc., only 24 Lap Top computers could be purchased. As accessories are used in sets, it is kindly informed that Lap Top computers alone could not be distributed and distributions are made after purchase of all equipment.</p>	<p>Assets should be purchased after identifying correct requirements and action should be taken to utilize them efficiently.</p>

3.5 Procurement Management

Audit Observation	Comments of the Management	Recommendation
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<p>Even though provisions for the Project on obtaining finger prints and photographs had been made in the Annual estimate of the year 2018, it was observed that procurements had not been planned under the relevant Objects. Accordingly, provisions for revenue amounting to Rs.11,000,000 had been made under Objective 221-2-4-1409. Nevertheless, procurements had not been planned under the said Object. Moreover, provisions of Rs.17,000,000 had been made under Capital Object No.221-2-4-2103. However, only procurements of Rs.4,321,700 had been planned. As such, provisions had to be transferred and saved due to making provisions without identifying the requirement and proper planning. Moreover, it was observed as well that the Procurement Plan is not complied with the Annual Budget Estimate.</p>	<p>It was after requesting for provisions for the year 2018 that a decision was taken to carry out this activity by deploying the Departmental staff in the year 2017. As such, it is kindly informed that provisions made under Object 221 – 2 – 4 – 1 - 1409 was saved.</p>	<p>Action should be taken to plan procurements after identifying correct requirements and to make provisions accordingly.</p>

3.6 Human Resources Management

Audit Observation

Comments of the Management

Recommendation

(a) The staff of the Central Bank of Sri Lanka of the Employees' Provident Fund is not a staff approved by the Monetary Board and a staff of 184, 176 and 166 had been attached therefor in the years 2016, 2017 and 2018 respectively.

In terms of provisions of the Employees' Provident Fund Act, employees of the Central Bank of Sri Lanka have been attached for the functions of the Employees' Provident Fund according to the number required. However, in case of any person retiring from the staff attached, filling of the vacancy in that post will be postponed up to the recruitment of the next staff. Accordingly, the number of employees mentioned in the Audit observation, is the number that served, attached to the Department at the end of the relevant years.

Action should be taken to carry out a correct evaluation and to approve an adequate staff.

(b) The cost per employee of the Fund relating to the years 2017 and 2018, appears below.

The staff of the Employees' Provident Fund Department of the Central Bank of Sri Lanka, is a staff attached to the

Action should be taken to minimize the anomalies of the cost per employee of the Fund.

	Year 2018		Year 2017	
	Dept. of Labour	Central Bank of Sri Lanka	Dept. of Labour	Central Bank of Sri Lanka
Salary cost	407,899	559,472	387,855	459,475
(Rs.'000)				
Actual Cadre	861	166	805	176
Cost per Employee	474	3,370	482	2,611
(Rs.'000)				
Difference in Cost per Employee	2,896		2,129	
(Rs.'000)				

relevant Department from the staff of the Central Bank of Sri Lanka. A salary structure on par with other state banks has been formulated for the said staff and it cannot be directly compared with salaries of Government Departments.

It was observed that in the comparison of the cost per employee of the Department of Labour of the Employees' Provident Fund with the cost per employee of the Employees' Provident Fund Division of the Central Bank of Sri Lanka, it had increased by Rs.2,129,000 and Rs.2,896,000 respectively in the years 2017 and 2018. The salary anomalies between the Department of Labour and the Central Bank of Sri Lanka had mainly attributed therefor.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
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(a) According to the Annual Action Plan of the year 2018 of the Employees' Provident Fund Division of the Department of Labour, activities such as changing the National Identity Card Number into the Employees' Provident Fund Number under the strategy of strengthening social security and formulation of laws and rules planned to be carried out under the project on obtaining finger prints, improvement of technical capacity of District Labour Offices, launching of a Pilot Project and registration of the National Identity Card Number as the Employees' Provident Fund Number had not been performed in the year under review.	A Committee report has been prepared relating to the implementation of the Project on changing the National Identity Card number into the prime data of the Employees' Provident Fund and the Employees' Provident Fund had failed to perform the activities planned to be carried out by the said project according to the Action Plan of the year 2018 and it is informed that necessary action thereon will be taken in future.	Action should be taken to establish efficient and effective methodologies in performing functions indicated in the Action Plan.

4.2 Recommendations of the Committee on Public Accounts and Current Position

Audit Observation	Comments of the Management	the Recommendation
<p>According to Recommendation No. 09 of 26 February 2016, it had been instructed to submit a report to the Committee before 23 March 2016 on the possibility of preparing a computer programme by the Department of Labour of the Bank joining with the Central Bank of Sri Lanka for improving the information technology process of the Fund. The Superintendent of the Employees' Provident Fund had reported to Audit that concurrence had been given to provide technical assistance for carrying out a business process review under the capital market development programme functioning under provisions of loans granted to the Government by the Asian Development Bank and that basic activities for implementation of an integrated new information technology system is in process. However, as the information on the loan agreement relating to the said project, project report and project plan had not been made available to Audit, the progress in implementing the said recommendation could not be examined.</p>	<p>According to recommendations of the Committee on Public Accounts, basic steps are being taken by the Employees' Provident Fund Department of the Central Bank of Sri Lanka and the Department of Labour for implementing an integrated new information technology system under wider and strategic approaches.</p> <p>The loan agreement relating to the "capital market development programme", implemented under loans granted to the Government by the Asian Development Bank therefor, had been entered into between the Ministry of Finance and the Asian Development Bank on behalf of the Government of Sri Lanka. As such, the relevant loan agreement can be obtained from the Ministry of Finance.</p>	<p>Action should be taken to implement the recommendations of the Committee on Public Accounts and to submit the progress thereon and other necessary information to Audit.</p>

4.3 Internal Audit

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Audit Observation	Comments of the Management	Recommendation
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<p>An independent Internal Audit Unit has not been established for the Employees' Provident Fund and the internal audit activities of the Employees' Provident Fund Division of the Central Bank of Sri Lanka had been carried out by the Internal Audit Unit of the Central Bank of Sri Lanka. The approved cadre and the actual cadre of the Internal Audit Unit of the Department of Labour by which the administration of the Fund is being carried out, had been limited to 14 and 09 respectively. It was observed that adequate attention could not be paid for the audit activities of the Employees' Provident Fund due to the existence of 57 regional offices owned by the Department and lack of actual cadre according to the number of transactions carried out.</p> <p>Even though it had been continuously directed at the Committees of Public Accounts since the year 2013 that the internal audit of the Department should be strengthened, action had not been taken to carry out an Audit by attaching an adequate staff.</p>	<p>The approved cadre of officers of the Public Management Assistants' Service of the Internal Audit Unit as at 31.12.2018 has been increased to 10 and the number of officers attached by now has been increased to 07 as well. Moreover, a large number of vacancies exist in the posts of officers in the relevant service in this Department from a long period and it is informed that necessary action will be taken to provide officers for the Internal Audit Unit according to the manner in which vacancies of the Department are filled in future.</p>	<p>Action should be taken to strengthen the Internal Audit by attaching an adequate staff to the Internal Audit Unit.</p>

4.4 Audit Committee

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Audit Observation	Comments of the Management	Recommendation
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<p>Audit Committee meetings are held under the Ministry of Labour joined with all institutions relating to the Fund. Moreover, a separate Audit Committee had been held under the</p>	<p>The Department of the Employees' Provident Fund of the Central Bank of Sri Lanka participates at the Audit and Management Committee</p>	<p>Action should be taken to establish an independent Audit and Management Committee for the Fund.</p>

Department of Labour. However, there was no participation of the Central Bank of Sri Lanka, which carries out the financial administration of the Fund and the internal auditors thereof, for the said meetings. Attention had not been paid to the requirement of holding a separate Audit Committee for a Fund of approximately Rs.2,289 billion, with the participation of officers of the Department of Labour and the Central Bank of Sri Lanka attached for the activities of the Fund.

meetings held by the Ministry of Labour and Trade Union Relations once in every quarter.

The internal audit activities of the Department of the Employees' Provident Fund of the Central Bank of Sri Lanka falls under the scope of the Internal Audit Department of the Central Bank of Sri Lanka while those audit activities are reviewed by the Consulting Audit Committee with the participation of a member of the Monetary Board of the Central Bank of Sri Lanka.