

## **Public Service Provident Fund – 2018**

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### **1.1 Disclaimer of Opinion**

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The audit of the financial statements of the Public Service Provident Fund for the year ended 31 December 2018 comprising the balance sheet as at 31 December 2018 and the statement of income 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(3) 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. My comments and observations which I consider should be reported to Parliament, appear in this report.

Because of the significance of the matters described in paragraph 1.5 of this report, I do not express an opinion on the financial statements of the Fund. I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion relating to the balance sheet as at 31 December 2018 and the income and expenditure statement and the cash flow statement for the year then ended.

### **1.2 Basis for Disclaimer of Opinion**

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My opinion is disclaimed, 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 disclaimer of opinion.

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

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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 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 intends 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 Auditor's Responsibilities for the Audit of the Financial Statements**

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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 audit 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 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**  
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**1.5.1 Internal Control over the Preparation of Financial Statements**  
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The Fund is 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**  
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<b>Non-compliance with reference to the relevant Standard</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
Even though income and expenditure should be brought to account on accrual basis in terms of Standard 1, contrary to that, it had been disclosed that monies received to the Fund through Accounting Principles of the financial statements, are brought to account on cash basis.	I accept the observation.	Action should be taken in terms of Accounting Standards.

### 1.5.3 Accounting Deficiencies

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
----- Sums of Rs.1,772,975 and Rs.2,079,025 had been understated and overstated as interest income and withholding tax respectively on investments valued at Rs.642,000,000. As such, interest income on fixed assets receivable as at the end of the year under review had been understated by Rs.3,852,000 in the financial statements.	----- I accept the observation.	----- Interest income relevant to the period should be accurately computed and brought to account.

### 1.5.4 Unexplained Differences

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
----- Unidentified balances relating to debit and credit entries carried out through monthly account summaries from the year 2006 to the year 2017 in the Fund by various Government institutions until settlement had been adjusted to the Adjustment Account. Even though the debit balance of that account as at 31 December 2018 was Rs.29,448,892 according to financial statements, the balance was Rs.24,158,246 according to the schedule relating thereto, thus observing a difference of Rs.5,290,646.	----- I accept the observation.	----- Action should be taken to account the balances of the Adjustment Account in the correct accounts by annual reconciliations separately with relevant institutions.

### 1.5.5 Lack of Documentary Evidence for Audit

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Item	Amount	Evidence not made available to Audit	Comments of the Management	Recommendation
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Compulsory Contribution Account, Voluntary Contribution Account, Government Contribution Account	Rs.62,071,934,809	Failure in taking action to properly maintain the individual accounts of members who had contributed to the Fund	Receipts of money sent by each institution to the Public Service Fund as 8 per cent and 12 per cent are entered in the Register of Money Receipts and in the Register of Payments by separating as 8 per cent and 12 per cent. The balances of the Compulsory Contribution Account, Government Contribution Account and Voluntary Contribution Account have been computed by deducting payments from receipts added to the opening balance of the year during the year and adding appropriations of profits.	Action should be taken to confirm the accuracy of balances through maintenance of a proper data base on individual accounts of members who had contributed to the Fund.

### 1.6 Accounts Receivable

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Out of the balance of the Adjustment Account, sums of Rs.19,854,328, Rs.3,187,045, Rs.874,093 and Rs.125,362 were balances ranging from 1 to 3 years, 4 to 6 years, 7 to 10 years and older than 11 years respectively, according to the schedule as at 31 December 2018.

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

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The following observations are made.

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) Public Service Provident Fund Ordinance of 1942 (Cap.621)			
(i) Sections 16 (b) and 20 (b)	If a contributor is dismissed on inefficiency or misconduct or appointed to a pensionable office in the public service, the Government contribution with interest should be repaid to the Consolidated Fund on behalf of the officer. However, action had not been taken to repay the unpaid Government contributions with interest amounting to Rs.313,813,696 relating to the year 2018.	The Government contributions with interest relating thereto payable in terms of Sections 20 and 16 of the Public Service Provident Fund Ordinance had been settled up to the year 2017. Action will be taken to settle the amount payable for the year 2018, in the year 2019.	Action should be taken to credit the unpaid Government contributions with interest to the Consolidated Fund.
(ii) Section 25	As soon as practicable after the close of each financial year, the Director General of Pensions shall inform contributors of the balances to his credit as at 31 December in the Fund. However, action had not been taken accordingly.	Even though attempts have been made to prepare an appropriate system, it has been delayed due to a problematic situation. Continuous action is being taken in that connection.	Action should be taken in terms of the Section of the Ordinance.

(b) Section 08 of the Pensions Circular No.07/2015 of 23 July 2015 According to provisions in the circular, contributions should not be credited through monthly account summaries. However, contributions of Rs.50,353,743 from 13 institutions had been credited through monthly account summaries to the Fund in the year 2018. I accept the observation. The circular should be adapted.

## 2. Financial Review

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### 2.1 Financial Results

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The operations of the year under review had resulted in a surplus of Rs.6,779,940,754 as compared with and the corresponding surplus of Rs.5,642,414,331 for the preceding year, thus observing an improvement of Rs.1,137,526,423 in the financial result. The increase in the interest income from investments by Rs.1,189,752,778 had been the main reason therefor.

## 3. Operating Review

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### 3.1 Management Inefficiencies

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Audit Observation	Comments of the Management	Recommendation
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(a) A delay ranging from 01 month to 14 months was observed in handing over cheques from the postal branch of the Department of Pensions to the Public Service Provident Fund Branch sent by institutions as contributions of the Public Service Provident Fund.	Cheques are sent by various institutions to the Public Service Provident Fund by post and gaps are observed in several instances between the date of cheque and the date recorded in the Register of Cheque Receipts of the Provident Fund Office.	Action should be taken to realize income received as quickly as possible. As such, systems of controls necessary for obtaining cheques to the Public Service Provident Fund Branch immediately after receiving at the postal branch, should be introduced.

- (b) Even though action should be taken to realize the income received to the Government as quickly as possible, cheques received to the Public Service Provident Fund had been banked with a delay ranging from 8 days to 1 ½ months. Instructions have been given by Pensions circular 07/2015 relating to remittance of cheques and it has been further stressed that public service provident funds recovered monthly should be sent before the 10<sup>th</sup> day of the following month. Action should be taken to realize income received to the Government as quickly as possible.
- (c) According to the audit test check carried out in September 2018, forty three cheques valued at Rs.1,989,639 returned in the months of January, February and March 2018 but contributions not sent for again, were observed. I accept the observation. In avoiding such a situation, the relevant officers have been briefed on remitting cheques to the bank immediately after receiving them to the Branch. Action should be taken to bank the cheques as quickly as possible and to call back contributions for the cheques returned.
- (d) The Public Service Provident Fund has been established with the intention of awarding benefits to certain public employees who are not entitled to pension. A number of 954 unpaid applications were available as at 01 January 2018 and the number of applications submitted during the year for obtaining benefits by members of the Fund stood at 3,555. Out of them, payments of Rs.354,979,757 had been made for 3,917 applications by 31 December of the year under review while payments had not been made for 592 applications. The institutions had been informed of the incomplete applications included in the remaining 592 applications and there were applications for which payments could not be made until those shortcomings were received to the Branch. As such, payments could not be made at once for all applications due to shortcomings existed in files, submitted for obtaining benefits. Action should be taken to give instructions to minimize shortcomings existing in applications received from institutions and thereby make arrangements to pay for applications without delay.