

Public Service Provident Fund - 2020

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Public Service Provident Fund for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and Income and expenditure account for the year then ended 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 Section 24 (1) of the Public Service Provident Fund Ordinance No. 18 of 1942 (Cap 621). My comments and observations which I consider should be reported to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Fund due to the impact of paragraph 1.5 of this report. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed based on the matters set out in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, under those standards is further described in the Auditor's Responsibility 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 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 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

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.

1.5 Audit Observations regarding the preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting

| Non-compliance with Reference to the Relevant Standard | Comments of the Management | Recommendation |
|---|-----------------------------------|--|
| ----- | ----- | ----- |
| Although income and expenditure are to be accounted on accrual basis in terms of Public Sector Accounting Standards 01, it has been stated in Accounting Policies 2.4 (c) (ii) of the Financial Statements that contributions were brought to accounts on the cash basis. Accordingly, the compulsory contributions amounting to Rs. 328,201,324 received during the year had been brought to accounts on cash basis. | Agreed with the matter. | Expenditure should be brought to accounts in accordance with the Public Sector Accounting Standards. |

1.5.2 Documentary Evidences not made available for Audit

The following observations are made.

| Audit Observation | Comments of the Management | Recommendation |
|---|--|---|
| ----- | ----- | ----- |
| (a) Due to the failure in maintaining the individual accounts of the contributors to the Employees Provident Fund, the membership register had not been submitted to audit to confirm the numbers of opening and closing membership of the year under review. As a result, the balance of the Compulsory Contribution Account, amounting to Rs. 28,972,771,536 as at 31 December 2020, balance of the Voluntary Contribution Account, | These balances can be confirmed by maintaining individual accounts and it has been emphasized that information should be provided to the relevant institutions through the system. About 80-90 institutions are currently working to send contributions through the system as per the notifications and reminders made. Necessary steps are being taken to further increase this number in the future and arrangements are | The accuracy of the balances should be confirmed by maintaining a systematic database of the individual accounts of the Contributors. |

amounting to Rs. 44,799,765 and the balance of the Government Contribution Account, amounting to Rs. 44,820,450,342 could not be identified separately as per the entitlement of the contributors.

being made to classify the receipts of 8% and 12% according to Contribution Accounts through the online system and to submit individual balances.

(b) Unidentified balances were recorded in an adjustment account until the unidentified balances related to debits and credits made to the account of the Fund by various government institutions through monthly account summaries were settled. Accordingly, the unidentified balance in the adjustment account as at 31 December 2020 outstanding for number of years amounted to Rs.29,811,314. It was not possible to vouch the balance satisfactorily during the audit due to non-submission of a detailed schedule.

The opening balance was indicated as Rs.29,807,95 prior to a number of years in the schedule, where the Fund is being maintained and it could not be matched with the balance of our adjustment account. Inquiries were made continuously from the institutions as to whether these balances had been settled and it is anticipated to take appropriate steps in the future through the Management Committee to eliminate the wrongly debited amounts.

The balance of the annual adjustment account should be reconciled with the relevant institutions separately and action should be taken to account them in the correct accounts.

2. Financial Review

2.1 Financial Results

Operational result for the year under review was a surplus of Rs. 7,627,899,989 and the corresponding surplus for the previous year was Rs. 6,520,628,550. Accordingly, an increase of Rs. 1,107,271,439 was observed in the financial result. Increase in the interest income on investment by Rs. 897,993,615 was the major reason for this growth.

3. Operational Review

3.1 Management Inefficiencies

The following observations are made.

| | Audit Observation | Comments of the Management | Recommendation |
|-----|---|---|---|
| (a) | Out of the total of 5,188 applications submitted by the members of the Fund for obtaining benefits during the year, payments had not been made for 987 applications even by 31 December in the year under review. | It was not possible to get officers attend the Department of Pensions after the closure of the Department in March 2020 and at the end of October 2020 with the spread of the COVID 19 virus and as a result, the number of applications, for which payments could not be made even by the end of the year was 987. | Action should be taken to pay the applications without delay. |