

## **Sri Lanka Social Security Board - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Sri Lanka Social Security Board for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, 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 Finance Act No. 38 of 1971. My comments and observations which I consider should be report 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 Board as at 31 December 2020, 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**

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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**

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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 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 Board 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 Audit Scope (Responsibilities of Auditors for the Audit of 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 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 skepticism 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 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 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/ Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Audit Observations on the preparation of 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**

<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Although the assets expected to be realized within 12 months after the date of reporting in accordance with paragraph 76 of the Standards 01 should be listed under current assets, fixed deposits with a maturity of less than one year amounting to Rs.370,876,767 were shown under non-current assets at the end of the year under review.	Those investments are not classified as current assets as they are reinvested on the maturity date. However, in accordance with the Public Sector Accounting Standards, it was agreed to classify and present investments that are expected to be realized within 12 months as current assets from the year 2021.	Assets to be realized in less than one year should be identified as current assets.

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| <p>(b) Although the financial statements should disclose the details relating to that revaluation when a property, plant or equipment class has been declared in revaluated value as per paragraph 90 of Sri Lanka Public Sector Accounting Standards No. 07, The Board had revalued lands and buildings during the year under review for Rs.97,050,000 and Rs.74,449,000 respectively but any disclosures regarding those had not been made in the financial statements.</p> | <p>Disclosures related to asset revaluation had avoided in the 2020 financial statements. But it was agreed that to make such disclosures necessarily in the financial statements from 2021 onwards.</p> | <p>Action should be taken in accordance with the relevant accounting standards.</p> |
| <p>(c) Although the entire class of the property, plant and equipment should be fully revaluated when a property, plant and equipment item is revaluated in accordance with paragraph 49 of the Standard, it was observed that the revaluation had been made only buildings valued at Rs.138,151,000 though the Board had buildings valued at Rs.161,241,180 as at 01 January 2020.</p>   | <p>It was agreed to revalue the building and property class again and enter the correct values in to the financial statements by also including the cost of building repairs and new additions.</p>      | <p>Action should be taken in accordance with the relevant accounting standards.</p> |

### 1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
<p>(a) An adjustment of Rs.1,251,339 had not been made in the prior year had been adjusted to the profit for the year under review in the cash flow statement.</p>	<p>The value of recoveries from cheques over 06 months and accrued expenses paid in excess of the required amount in 2019 taken into income again are included in the amount of Rs.1,251,339 adjusted to the Cash Flow Statement. Since these adjustments are for transactions of the year 2019 and had been adjusted to the Accumulated Fund, that value had been adjusted for this year's cash flow statement.</p>	<p>Relevant corrections should be made.</p>

- (b) The depreciation had overstated by the same amount due to the non-deduction of a balance of Rs.60,599 to be deducted when revaluating the buildings included in the depreciation value of Rs.11,258,357 stated in the Operating Activities. It was agreed to rectify this depreciation, as stated in 1.5.2.(C) above, by revaluating the property class again to which the buildings belong. Action should be taken to calculate depreciation accurately and correct the overstatement.

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

Reference to Laws, Rules Regulations	Non-compliance	Management Comment	Recommendation
Paragraph 4.2 of the Government Procurement Guidelines 2006	Although the Master Procurement Plan should be prepared in detail the expected procurement activities for a period of at least three (3) years, a procurement plan had not been prepared accordingly.	A procurement plan had not been prepared for the purchase of fixed assets for 3 years, including the year 2020 and it was prepared only for the years 2021, 2022 and 2023.	Action should be taken according to the laws, rules and regulations.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs.12,041,238 and the corresponding deficit in the preceding year amounted to Rs.6,647,530. Therefore, a deterioration amounting to Rs.5,393,708 of the financial result was observed. The main reason for this deterioration was the decrease in government grants receipts from Rs.134,503,000 in the previous year to Rs.121,777,365 in the year under review.

### 3. Operational Review

#### 3.1 Uneconomic Transactions

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) The Sri Lanka Social Security Pension Fund had provided salary advance loans to Board employees at 9.5 percent interest and the balance to be recovered from the advance was Rs.9,038,538 as at 31 December 2020.	This loan scheme which had been approved by the Board of Directors to be given to permanent staff has created employee motivation and developed the Social Security Fund on the amount of interest earned.	Action should be taken to provide more benefits to the contributors by investing funds of the Social Security Pension Fund in more profitable investments.
(b) The action had not been taken to identify the subscription payments as allocated by members amounting to Rs.10,397,234 paid by the members who had recruited for Social Security Pension Scheme up to the year under review since 2004 under Sri Lanka Social Security Pension Fund as at 31 December 2020.	The main reason for this is that the members did not provide the required information to confirm their subscription number when paying their subscriptions to the bank and although unidentified contributions amounting to Rs.10,397,234 were recorded as at 31 December 2020, at present this figure could be reduced to Rs.6,768,593. Further discussions are underway with the banks to make it mandatory to mention the subscription number when making payments to the bank.	The action should be taken to identify the unidentified balance of Rs.6,768,593 and to prevent the occurrence of such balances in the future.

#### 3.2 Management Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
In the action plan entitled 'Creating a Methodology to Secure the Future of Low-Income's, although the recruitment target for the Board's Pension Scheme is planned as 35,000 persons, the actual enrollment during the year was 25,678. The number of pensioners	The reasons such as the spread of the Covid-19 virus throughout the year 2020, travel restrictions, restrictions on public gatherings, vacancies of 17 Coordinating Officers throughout the year, and insufficient funding for promotion and publicity were	The activities should be performed properly to achieve the desired targets.

under the Sri Lanka Social Security directly contributed to the Pension Fund Scheme was 31,769 as slowdown in progress. at 31 December 2020.

### 3.3 Human Resources Management

----- <b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
<p>The main objective of the Board is to provide a pension to the self-employed in the fisheries and non-agricultural sectors. The recruitment of members for these schemes is done by the Coordinating Officers. Although 49 posts of Coordinating Officers had been approved for the Board, out of these, 17 officers had been vacant for around two years. It was observed that this situation has been one of the reasons for the decline in recruitment of members.</p>	<p>Although all the interviews related to the recruitment of the vacant Coordinating Officer posts had been completed by 27 April 2021, the appointment letters related to these recruitments had not been issued so far due to Covid-19. This delay in recruitment had been due to the suspension of all recruitments by the Ministry of Finance on 20 November 2019.</p>	<p>The actions are being taken to carry out the functions of the Board efficiently by recruiting the relevant posts.</p>