

Social Security Board - 2022

1. Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the Social Security Board for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, statement of changes in net assets 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 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 Board as at 31 December 2022, 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 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 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 intends 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 Sub-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 (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. 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 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 General Secretariat Office 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 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards.

Non Compliance with the reference to particular Standard	Comment of Management	Recommendation
(a) With provisions of the Sri Lanka Public Sector Accounting Standards No. 07 value of Rs. 47,829,179 of communication equipment, furniture and office equipment, computer accessories and machinery and equipment which had already been ended depreciating as at 31 December year under review and in using by that date had not been shown in the financial statements at a fair value based on the market value.	It was impossible to do the revaluation of assets due to Covid 19 situation had been in the year 2020, 2021, 2022 and the limitations of expenditure and action is taken to revalue assets in the year 2024.	The value of the assets should be shown in the financial statements at a fair value.
(b) In accordance with the section (a) of the alternative accounting standard for the Sri Lanka Public Sector Accounting Standards No. 11 of 2018. Although the total capital grant had received for the year could be able to accounted for as differed income of the year by accounting the amortized value for capital grant received in early years as differed income of the year under review the excess of the year had been shown more by Rs. 11,952,597	Capital grant received up to the year 2021 the amortized value has been accounted as differed income of the year under review in accordance with the basic recommendations of the Sri Lanka Public Sector Accounting Standards No. 11 of 2022.	Action should be taken in accordance with the Accounting standards.

1.5.2 Accounting Deficiencies

Audit observation	Comment of the management	Recommendation
(a) It should have been identified the identity of the members who are in the pension schemes pertaining to the amount of Rs. 2,950,621 of premiums deposited in bank accounts during the period from the year 2016 to the year under review and should have brought to accounts for that single accounts however, instead of above it had been accounted as unidentified deposits.	It is expected to inform the State Banks to take necessary action to accept only the deposits that have completed the necessary information so that the relevant contributors can be identified.	Should be credited to the accounts of the members identifying balances of deposits.
(b) In relation to the stock items of 179 items value totaling to Rs. 7,907,995 in the closing stock balance the value of 27 number of unusable stock items had not been shown in the financial statements being calculating the value and allocating provision.	Action is taken to make omissions relating to that in the year 2023.	Provision should be done for non-using stocks.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 381 (1)	Even though 04 bank current accounts and 03 savings accounts had been opened during the period from the year 2003-2021. An approval of the treasury had not been taken up to the date of 31 December 2022.	Action to be taken to get an approval from the Department of State Accounts of General Treasury relevant to that in future.	Action should be taken in terms of Financial Regulations.
(b) Section 15 (2) of Social Security Board	Even though the Board should have informed	Action is taken to prepare a procedure to aware of	Action should be taken in terms of

Act No. 17 of 1996	to the member that he has been deprived of the benefits it had not been informed the dormant members that they have been deprived of the benefits of Rs.683,903 by the date of 31 December 2022 due to it had not been able to get accurate reports through the database of members that information included.	inactiveness of each one of contributor's accounts being checked until preparing a system.	Social Security Board Act.
(c) Section 22 of Social Security Board Act No. 33 of 1999 (Amendment)	Even though all monies in the Fund which are not immediately required by the Board may be invested by the Board in such a manner and in such securities as may be authorized by the Minister with the concurrence of the Minister in charge of the subject of Finance such agreement was not obtained for investments of total value of Rs.2,536,179,200.	All the funds of the Board invest in the state banks as per the Circular of the Secretary to the General Treasury No. 02/2018 dated 14 November 2011 of the Department Public Enterprises.	Action should be taken in accordance with the Social Security Board Act.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a deficit of Rs. 419,422 and the corresponding deficit in the preceding year amounted to Rs. 3,594,481. Therefore an improvement amounting to Rs.3,175,059 of the financial result was observed. The increase in income had been mainly attributed to this improvement.

3. Operating Review
3.1 Operating Inefficiencies

Audit observation	Comment of the management	Recommendation
<p>(a) As per the procurement plan in the year 2017 the provision of Rs.12,511,000 had been taken from the treasury for the installation of new software system for the social security pension scheme following the planning of such software system and had been entered in to an agreement with the relevant institute on 06 December 2018. After that a payment of Rs. 1,009,250 had been done as a 10 percent out of the payment on 14 February 2019 relating to the supply of first lot. Since changes have been done between two parties time to time even though 6 years had been passed as at 31 December of the year under review, it had not been able to properly maintained the operational activities of the social security pensions schemes of the Board due to non-installation of this computer system and that money had been invested as short term deposits.</p>	<p>An approval of the Board of Directors has received to close the existing agreement and to start procurement activities for purchase of new computer system.</p>	<p>The computer system should be install to maintain properly the operational activities of the social security pensions schemes.</p>
<p>(b) Out of the government provision of Rs.2.2 million received in previous year for the activation program of 683,903 dormant members, among 879,969 members who had obtained membership under pension schemes, Rs. 40,000</p>	<p>Action to be taken to activate 347 members again and letters send for 40,628 members to inform the status of dormant and to do those activities more effectively even in future under the entire project.</p>	<p>Action should be taken to activate dormant members.</p>

had been incurred for operational expenses out of Rs. 778,000 of the provision that relating to the year under review. Accordingly, the action plan of the year under review it has planned to activate 5,000 of dormant members however expending Rs. 1,462,576 only the 217 members had been activated.

- (c) Returning of Rs. 212,120,573 out of the paid premiums by 8,720 of members who had paid 25 percent or more premiums from the year 2016 to the year under review due to inactivation of membership or cancellation of membership. The reason for their leaving had been that the Board had failed to plan and implement provisions and practices for further continuation of their member ship instead of allowing these members to leave. There had been a tendency of returning money by a lot of contributors cancelling the membership annually.
- The tendency of claims by members was increased for returning of their money due to the situation of Covid pandemic and economic crisis prevailed in the country in the years of 2020, 2021 and 2022. However plan and implement provisions and practices for further continuation of their member ship instead of allowing these members to leave.
- Action should be taken further continuation of their member ship.
- (d) Even though the Board has initiated 07 pension and benefit schemes, only the two pension schemes of Surekuma and Arassawa had been in operation by the year under review due to the failure of the management of the operational activities of the Board. Although 460,800 members had been enrolled for those 02 schemes only 123,295members alias 27
- On the non- permanent of 4 schemes as per the decision of the Board of Directors recruitment of new members for those schemes has stopped and benefits for recruited members are continuously and properly provided.
- Action should be taken as per fulfill the objectives.

percent of members had been active by the year under review. It was observed that a high number of dormant members as per the previous year due to non-receipt of up to date details on members who were deprived of benefits under the deed and those who neglected the payment of premiums, Although the number of dormant members had been gone up the Board had not taken relevant actions to avoid that situation.

3.2 Transactions of Contentious Nature

Audit observation	Comment of the management	Recommendation
<p>The building located at Rajagiriya had been purchased in 2013 by paying of Rs. 195 million from the Fund of the Board for the maintenance of the Head Office of the Board. The board had done a loss of Rs. 30 million to the Board because the Board has purchased the building for a high price exceeding the government valuation of Rs. 165 million without following the procurement guidelines. Although 10 years had been passed, the loss had not reimbursed by the responsible parties.</p>	<p>A committee has been appointed to do an investigation and that investigation report has submitted to the meeting of the Board of Directors on the date of 10 may 2023, after having consultation of the Board of Directors and taking legal advice the Board of Directors decided to hand over the case to the Attorney General accordingly.</p>	<p>Action should be taken to recover the loss fulfilling legal activities against the responsible parties.</p>