

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 2024 comprising the statement of financial position as at 31 December 2024 and the statement of financial performance for the year then ended, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of Section 24(1) of the Public Service Provident Fund Ordinance No.18 of 1942 (Authority 621), provisions of the Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with the provisions of the National Audit Act, No.19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

I do not express an opinion on the financial statements of the fund. Because of the significance of the matters described in paragraph 1.5 of this 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

I expressed Disclaimer of opinion 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.

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

Management is responsible for the preparation of these 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 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.

1.4 Responsibility of the Auditor for the 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 exercised 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 its 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. 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 Audit Observations on the preparation of Financial Statements

1.5.1 Accounting Deficiencies

	Audit Observation	Management's Comments	Recommendation
(a)	Accrued interest income amounting to Rs.1,309,507,797 for Treasury Bonds valued at Rs.43,650,259,791 as at 31 December 2024 had been understated in the submitted financial statements.	That the interest income from Treasury Bonds had been accounted for on a cash basis after receiving funds to the fund.	Income should be accurately identified and accounted.
(b)	Interest income related to two fixed deposits had been overstated by Rs.27,669,000 in the year under review.	Action will be taken to correct this when preparing the final accounts for 2025.	-do-

1.5.2 Documentary Evidences not made available for Audit

	Item	Amount (Rs. Mn)	Unsubscribed Audit Evidences	Management's Comments	Recommendation
(a)	Schedules to confirm the government contributions receivable disclosed in the financial statements were not submitted for audit.	221.0	Schedule of individual balances	A new method introduced at the beginning of 2025 will allow identification of these balances by institution and officer and that, it is expected that these balances which is coming from earlier will reduce as payments are made to officers.	Schedules should be submitted to confirm the accuracy of balances.
(b)	Due to the failure to submit schedules of individual balances so that separated by each contributor, the accuracy of balances in the Compulsory Contribution Account and the Government	39,823.8 61,194.7	Schedule of individual balances	That a schedule of individual balances had not been submitted.	-do-

Contribution Account could not be confirmed.

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| (c) | Since the schedule with beneficiary details related to the balance of the Voluntary Contribution Account was not presented for audit, the accuracy of the balance could not be confirmed. | 61.5 | Schedules with beneficiary details | Since it is important to maintain a list of individual balances of contributors as part of the fund, a mechanism has now been initiated to include an institutional-level analysis of contribution funds received via cheques, with the expectation of accurately analyzing the existing balances in the future. | Schedules should be submitted in a manner that allows the accuracy of balances to be verified through the maintenance of a data system. |
| (d) | Age analysis was not provided for the balance of reconciliation account carried forward since 1989. | 5.6 | Age Analysis | An age analysis could not be carried out. | Action should be taken to identify balances at institutional level. |

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Management's Comments	Recommendation
Section 25 of the Public Service Provident Fund Act No. 1942	Although the Director of Pensions should inform each contributor about the total amount in the fund under his/her name at the end of each financial year, this requirement was not fulfilled.	Answer was not given.	Actions should be taken in accordance with the provisions of the Act.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a surplus of Rs.13,278.43 million, while the corresponding surplus for the previous year was Rs.17,102.56 million. Accordingly, the decrease in financial result was mainly due to a decrease of Rs.3,824.13 million in interest income from investments.

3. Operational Review

3.1 Managerial Inefficiencies

Audit Observation	Management's Comments	Recommendation
To divide the interest income of Rs.13,278,434,296 among contributors, an average value based on initial monthly allocations was used to calculate the rates and, as a result, it was observed that the interest income was not fully distributed among the contributors. Interest income amounting to Rs.5,074,001,808 had been transferred to the general reserve during the year under review without being distributed among the contributors.	Answer was not given.	A proper basis should be approved.