

## Public Service Provident Fund - 2012

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### 1. Financial Statements

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#### 1:1 Disclaimer of Opinion

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Because of the significance of the matters described in paragraph 1.2.1 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly I do not express an opinion on these financial statements.

#### 1:2 Comments on Financial Statements

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##### 1:2:1 Lack of Evidence for Audit

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The following observations are made.

- (a) In terms of provisions in Section 7(1) of the Public Service Provident Fund Ordinance, 1.5 times the compulsory contributions should be credited by the Government to the Fund as the Government bonus. Even though the Government bonus of Rs.19,432,482,557 which is 1.5 times the balance of the compulsory contributions as at 31 December 2012 amounting to Rs.12,954,988,371 should be in the Government Bonus Account, the balance therein amounted to Rs.19,839,373,184. Thus a difference of Rs.406,890,628 was observed. The management failed to produce the audit evidence needed for explaining that difference.
  
- (b) Even though individual accounts for each contributor should be maintained in terms of Section 2(2) of the Ordinance, action had not been taken from the inception of the Fund to maintain individual accounts. As such the balance of the Compulsory Contributions Accounts amounting to Rs.12,954,988,371 could not be examined. In addition, in view of the unavailability of the particulars of the contributors paying compulsory contributions to the Fund and the non-computation of the balance of the arrears receivable, it was not possible to be satisfied in audit with regard to the accuracy of the Compulsory Contributions Account.

1:2:2 Accounts Receivable and Payable

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A balance of Rs.13,823,857 had been shown in the Adjustments Account in the balance sheet as at the end of the year under review. Action had not been taken for the settlement of the balance. The details of balances of several past years are given below.

Year	Balance
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	Rs.
2009	5,983,197
2010	12,850,740
2011	18,326,537

1:2:3 Non-compliance with Laws, Rules, Regulations etc.

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The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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(a) Public Service Provident Fund Ordinance (Cap. 621)

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(i) Section 2(2)

Even though individual accounts should be maintained for each contributor, individual accounts had not been maintained from the inception of the Fund.

(ii) Section 25

Even though according to this section, the Director General of Pensions should, at the end of each financial year, inform the contributors of the balances in the members accounts as at 31 December, action had not been so taken.

(b) Financial Regulation 188(2)

Action had not been taken in accordance with the provisions for the settlement of the unrealized receipts older than 06 months amounting to Rs.193,720 appearing in the Bank Reconciliation statement presented as at 31 December 2012.

2. Financial and Operating Review  
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2:1 Financial Results  
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According to the financial statements presented, the financial results for the year under review before appropriation to the contributors amounted to a surplus of Rs.2,560,334,257 as compared with the corresponding surplus of Rs.2,426,308,059 for the preceding year, thus indicating an improvement of Rs.134,026,198 in the financial result as compared with the preceding year. It was observed that the increase of the interest income for the year under review by Rs.134,821,502 or 6 per cent as compared with the preceding year had been the reason for the improvement of the surplus.

3. Operating Review  
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3:1 Performance  
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The position of the expected targets of the Action Plan for the year 2012 and the actual achievement is given below.

Activity	Expected Targets	As at 31 December 2012	
		Actual Position	Percentage
(a) Registration of Contributors	6,000	3,667	61
(b) Collection of Contributions (Rs.Millions)	2,200	1,556	71
(c) Investment of Additional Funds (Rs. Millions)	3,400	3,420	101
(d) Payment of Benefits to Contributors (Rs.Millions)	500	484	97

### 3:2 Interest Percentage Entitlement of Members

Details of interest percentages granted to members by the Fund for the year under review and preceding year are given below.

Year	2012	2011	2010	2009	2008	2007	2006
Interest Percentage	8.69	9.15	11.00	11.85	7.95	7.50	8.04

According to the above particulars, there had been fluctuations in the percentage of interest paid annually to the members and as compared with the preceding year, the percentage of interest paid to the members in the year under review had decreased by 0.46 per cent.

It was further observed in audit that the fluctuations in the interest rates in the money market results in changes in the interest on the investments of the Fund thus resulting in the interest rates appropriated.

3:3 Money receivable from the Treasury to the Fund  
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In view of the non-receipt of the Government bonus receivable from the Secretary to the Treasury, the interest income that could have been earned from the investment of such money had been deprived of. Such interest income deprived of in the year under review and in 06 preceding years is given below.

Year	Amount receivable from the Treasury as at 31 December	Interest that could have been earned by investing the money receivable in Treasury Bonds
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	Rs.	Rs.
2006	1,013,381,581	154,034,000
2007	1,451,131,498	206,060,673
2008	1,799,238,475	307,669,779
2009	1,792,715,215	277,870,858
2010	1,904,165,223	166,614,457
2011	2,147,647,821	186,201,066
2012	2,127,765,493	170,221,239
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		1,468,672,072
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According to the above observations, the interest income on investments deprived of to the Fund only in 06 immediately preceding years amounted to Rs.1,468 million approximately.

3:4 Payment of Benefits to Members  
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Out of the applications made by the members of the Fund during the year under review for obtaining the benefits, payments on 557 applications had not been made by 31

December 2012 and that represented 8 per cent of the total. Information for the year under review and several preceding years is given below.

Year	Number of Applications due for Payment in the year	Number of Applications paid in the year	Number of Applications not paid in the year	Percentage of the Applications not paid in the year
2006	1,103	622	481	43.6
2007	2,432	1,776	656	27.0
2008	4,014	3,289	725	18.1
2009	6,151	4,194	1,957	31.8
2010	9,787	5,882	3,905	39.9
2011	11,608	9,836	1,772	15.3
2012	7,402	6,845	557	8.0

### 3:5 Management Inefficiencies

According to the Circulars No. 1/97 dated 31 July 1997 and No. 14/2006 dated 30 October 2006 of the Director General of Pensions, an advice on the money credited to the Fund within each month should be furnished to the Secretary to the Fund before the fifteenth day of the subsequent month. Nevertheless, only a few institutions had furnished those advices in respect of the year 2012. The progress of the course of action taken by the Fund for obtaining those advices had not reached the expected level.

### 4. Systems and Controls

Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Obtaining Abatement Registers
- (c) Collection of Contributions

