

**Social Security Board of Sri Lanka - 2012**  
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**1. Financial Statements**  
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**1.1 Qualified Opinion**  
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In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Social Security Board of Sri Lanka as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

**1.2 Comments on Financial Statements**  
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**1.2.1 Accounting Deficiencies**  
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The following observations are made.

- (a) Action had not been taken even during the year under review to rectify the following accounting deficiencies pointed out in the preceding year.
  - (i) The depreciation on fixed assets in respect of the year 2011 had been understated by a sum Rs. 41,567.
  - (ii) Expenditure amounting to Rs. 534,826 relating to the year 2011 had been brought to account as expenditure for the year 2012.
  
- (b) Expenditure amounting to Rs. 522,254 incurred in 13 instances on repair to motor vehicles and expenditure amounting to Rs. 68,621 incurred in 03 instances on repairs to computers had been brought to account under capital expenditure instead of being brought to account under recurrent expenditure.

- (c) A loan of Rs.2,830,000 obtained from the Social Security Fund had been brought to account as income of the year in the Income and Expenditure Account, thus understating the deficit of the year by that amount.
- (d) Even though a provision of Rs. 10,305,796 should have been made for gratuity for the year under review, that had been brought to account as Rs. 9,701,275, thus understating the provision for gratuity by a sum of Rs. 604,521.
- (e) According to the accounting policy of the Board on accounting for Government Capital grants stated in the financial statements, the capital assets should have been adjusted to the Government Capital Grants Income Statement for the year under review based on the useful life. Nevertheless, a sum of Rs. 920,000 out of the capital grants of Rs. 988,800 given for the purchase of a motor vehicle for the Board had been spent and the balance sum of Rs. 68,800 had been adjusted to the Income Statement.
- (f) A refundable bid deposit of Rs. 70,000 obtained by the Board for the sale of a motor vehicle had been brought to account as income instead of being brought to account as a refundable deposit..
- (g) A sum of Rs. 17,273 out of the adjustments amounting to Rs.4,207,706 relating to the preceding year shown under operating activities of the cash flow statement, had been included in the cash flow statement without being identified.
- (h) In the computation of depreciation of the furniture and fixtures, 04 items with zero value had been depreciated for Rs. 22,759.
- (i) Even though a sum of Rs. 17,557 received from the sale of fixed assets in the year under review had been credited to the Fixed Assets Sales Account, the cost and the accumulated depreciation of those assets had not been transferred to the Fixed Assets Sales Account.
- (j) Even though the expenditure payable of the year under review had been brought to account as Rs. 33,553,016 the actual accrued expenses amounted to Rs.33,603,608. As such accrued expenses had been understated by a sum of Rs. 50,592.

- (k) The expenditure totaling Rs. 612,408 relating 32 items of the years 2010 and 2011 had been brought to account as expenditure for the year under review.
- (l) Even though the income from interest on investment for the year under review amounted to Rs. 161,092,187 that had been understated by a sum of Rs. 16,839 and brought to account as Rs. 161,075,348.
- (m) Action had not been taken to revalue 397 items of fully depreciated fixed assets by 31 December 2010 and record such value in the books.

#### **1.2.2 Unreconciled Control Accounts**

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Differences amounting to Rs.372,866 and Rs. 180,205 existed between the balances in two State Banks shown as at 31 December 2012 in the financial statements and the balances appearing in the respective Bank Pass books.

#### **1.2.3 Unexplained Differences**

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Even though the contributors had paid a sum of Rs. 1,699,648,532 as contributions to the Pension Scheme by 31 December 2012, a sum of Rs. 1,519,318,628 out of that only had been invested. As such a difference of Rs. 180,329,904 existed between the contributions and the investments.

#### **1.2.4 Unidentified Transactions**

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The following observations are made.

- (a) Action had not been taken for the identification and account for a sum of Rs. 20,708,353 shown as “cash book balance” under the current assets in the balance sheet under unidentified receipts from periods prior to November 2012.
- (b) The direct credits to the Bank Accounts of the Board for November and December 2012, had been debited to the cash book and credited to the Contributions fund without being identified. As such the unidentified cash balance of 03 accounts in State Banks totaling Rs.16,551,654 had not been disclosed in the accounts.

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

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The non-compliance observed during the course of audit are given below.

### Reference to Laws, Rules, Regulations and Management Decisions

### Non- compliance

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| (a) Financial Regulations 104(3), (4) and 109                    | Action in terms of the Financial Regulations had not been taken in connection with an accident to a motor vehicle.                      |
| (b) Financial Regulation 371(2)                                  | Advances amounting to Rs. 20,000 and Rs. 10,000 had been granted in two instances to two non-staff grade officers.                      |
| (c) Financial Regulation 371(2) (c)                              | Advance balance amounting to Rs. 6,900 remained without being settled since the year 2004.  |
| (d) Financial Regulation 756                                     | A Board of Survey had not been conducted as at 31 December 2012   |
| (e) Treasury Circular No 842 of 19 December 1978                 | The Register of Fixed Assets had not been updated since the year 2009   |
| (f) Public Enterprises Circular No.PED/25(3) of 30 November 2004 | The approval of the Secretary to the Ministry of Finance had not been obtained for the investment of Rs. 1,519,318,628 in the year 2012 |

## 2. Financial Review

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### 2.1 Financial Results

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The working of the Board for the year ended 31 December 2012 had resulted in a deficit of Rs. 18,535,954 as compared with the corresponding deficit to Rs. 15,297,054 for the preceding year. The deterioration of Rs. 3,238,900 in the year under review as compared with the preceding year had been due to the increase in the depreciation of fixed assets by a sum of Rs. 8,292,612

### 3. **Operating Review**

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#### 3.1 **Performance**

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The following observations are made.

- (a) Even though plans had been made for the enrolment Rs. 50,000 contributors at District level for the Schemes for the year 2012 only 7,450 contributors had been enrolled. Even though 40,760 in the year 2010 and 39,593 in the year 2011 had been enrolled as contributors and, as compared with those two years, the enrollment of contributors in the year had been rapidly deteriorated.
- (b) Even though the number of contributors enrolled by the Social Security Board to the Pension Schemes up to 31 December 2012 had been 442,708, out of that 331,448 contributors had become inactive. The failure to account for contributions on time had also effected the contributors becoming inactive.
- (c) In addition to targeting the enrolment of contributors, the following activities to be carried out included in the Action Plan for the year 2012 had not been successful.
  - (i) Even though the identification of potential social strata had been stated, the courses of action for the achievement of that objective and the results thereof had not been stated. The benefits expected therefrom by the Board were not clear.
  - (ii) Even though it was stated that the activities relating to the expansion of enrolment network had been carried out, the enrolment of contributors in the year 2012 had rapidly deteriorated.

- (iii) Even though plans had been made for the implementation of attractive and effective pension schemes, instead of introducing new schemes enrolment of contributors under the concessions, gifts, Isuru, Sarana and Dhana Lakshmi scheme introduced by the Notification published in the Gazette Extraordinary No 1464/5 of 25 September 2006 had been stopped with effect from 15 September 2012 by the circular No. SLSSB/ 2012/01 of the Board. The new contributors enrolled from that date had been enrolled only under “Surekuma” scheme.

Even though the Social Security Board was established by the Social Security Board Act, No. 17 of 1996 with the objective of establishing and management of Pension and Social Security Schemes for the self employed persons , the Board had failed to implement Pension Schemes with better benefits for the self employed person due to the stoppage of the schemes implement for the contributors and implementing only “Surekuma” scheme.

- (iv) Even though the Action Plan for the year 2012 included 12 key activities for carrying out in the year , a detailed Action Plan embodying the activities to be carried out, the target dates and the officers responsible had not been prepared. As such it had not been possible for the Board to carry out follow up action to determine the officers responsible for not carrying out the planned activities and the action to be taken in the ensuing year for rectifying in the deficiencies of the year under review.

### 3.2 **Transactions of Contentious Nature**

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In terms of Section 21(2) (b) and (c) of Part IV of the Social Security Board Act, No. 17 of 1996, all moneys received by the Board as contributions, interest on investments and profits earned should be credited to the fund of the Board. Nevertheless the Board had

established Social Security Incentive Fund and the Social Security Development Fund and the expenditure incurred on the incentives paid for the collection of contributions and the expenditure incurred on creating an awareness among the contributors had been met from those funds.

### 3.3 **Uneconomic Transactions**

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The following observations are made.

- (a) The Board had paid a penalty of Rs. 21,934 due to the failure to settle the electricity bill for March 2012 on the due date.
- (b) Even though a new computer system had been installed at a cost of Rs. 19,050,771 met from the Pension Fund the Procurement Guidelines of the Government had not been followed for the purchase. The expected objective of the installation of the computer system had not been achieved as there were delays of several years in the recovery of contributions from the contributors and accounting thereof even by 22 March 2013.

## 4. **Accountability and Good Governance**

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### 4.1 **Corporate Plan**

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Even though the Board had prepared a Corporate Plan for the years 2012 to 2016 in terms of Section 5.1.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, that had not been prepared in accordance with the matters referred to the Section 5.1.2 of that Circular.

### 4.2 **Action Plan**

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The Action Plan prepared for the year 2012 had not been prepared for the achievement of the objectives of the Corporate Plan in the chronological order by showing the officers

responsible for each activity. It had not been prepared in detail in a manner to enable the achievement of the objectives of the Corporate Plan.

4.3 **Procurement Plan**  
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Even though a Procurement Plan for the year 2012 had been prepared it had neither been reviewed and updated nor made use of as an instrument of control.

5. **Systems and Controls**  
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The deficiencies in systems and control observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention to be needed in respect of the following areas of control.

- (a) Assets Control
- (b) Accounting
- (c) Advances Control