

## **Employees' Provident Fund - 2014**

-----

The audit of Financial statements of the Employees' Provident Fund for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of income and expenditure, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 Section 6(3) of the Employees' Provident Fund Act, No.15 of 1958. My comments and observations which I consider should be published with the Annual Report of the Fund in terms of Section 6(3) of the Employees' Provident Fund Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

-----

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

-----

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 - 1810). Those Standards require that, I comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

-----

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## 2. Financial Statements

### 2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Employees' Provident Fund as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### 2.2 Comments on Financial Statements

#### 2.2.1 Sri Lanka Accounting Standards

The following observations are made.

##### (a) Sri Lanka Accounting Standard 10

Even though the market price of shares amounting to Rs.3,886,806,962 invested in 09 Companies by the Fund had been decreased by Rs.2,338,386,792 in the range between 57 per cent to 78 per cent as at 09 September 2015, the date of audit, it had not been disclosed in the financial statements.

##### (b) Sri Lanka Accounting Standard 39

Even though the financial statements had proved that the market value of the shares costing Rs.43,925,525 invested in a Company had decreased by Rs.41,660,680, that was by 95 per cent as at 31 December in the year under review and by Rs.42,793,103, that was by 97 per cent as at 09 September 2015, the date of audit and an imperable loss had incurred, action had not been taken in that respect.

#### 2.2.2. Accounting Deficiencies

The following observations are made.

- (a) (i) Relevant action had not been taken either to rectify or settle the transactions of 05 Bank accounts amounting to Rs.1,687,186,000 the particulars of which are shown below for the period from the year 2001 to 31 December 2014 and they had continuously been shown in the Bank reconciliation statements.

<u>Particulars of the transaction</u>	<u>Amount</u> (Rs.)
Direct deposits not recorded in the Cash Book	726,148,074
Dishonoured Cheques	44,941,965
Direct additions and deductions	136,761
Unidentified Balances	<u>915,959,200</u>
Total	<u><u>1,687,186,000</u></u>

- (ii) Any action had not been taken in respect of 3008 Cheques totalling Rs.119,657,756 issued but not presented to Bank during the said period, Cheques totalling Rs.348,499,737 deposited but unrealized and 75,396 Money Orders totalling Rs. 74,474,447 and they had continuously been shown in the Bank reconciliation Statements.
- (b) The accuracy of the Bank balances in financial statements had been problematic in audit as they had based on some other balances instead of the balances of the Bank Statement certified by the Bank in the preparation of the relevant Bank Reconciliation Statement as at 31 December in the year under review. Details appear below.

<b><u>Bank Account No. / Particulars</u></b>	<b><u>Balance as at 31 December 2014 according to Bank statement. (Rs.)</u></b>	<b><u>Balance used for the preparation of Bank Reconciliations (Rs.)</u></b>	<b><u>Difference (Rs.)</u></b>
5238958	1,796,753,332	1,972,721,415	175,968,083
085378	53,255	6,777,369	6,724,114
Account for the settlement of variances	-	111,801,745	111,801,745
	-----	-----	-----
Total	1,796,806,587	2,091,300,529	294,493,942
	=====	=====	=====

### **2.3 Accounts Receivable and payable**

-----  
The following observations are made.

- (a) As a sum of Rs. 8,836,366,465 received from the Central Bank of Sri Lanka as at 31 December 2014 had not been settled and credited to the accounts of the beneficiaries, it had caused to deprive of funds or delay in making payment for the beneficiaries. The Committee on Public Accounts had also inquired about the unsettlement of these balances without delay.
- (b) The contributions and surcharges recoverable to the Employees' Provident Fund totalling Rs.359,977,173 had remained unrecovered even by 30 September 2015 due to not taking legal action against 374 Institutions located within the purview of the District Labour office, Colombo West and the adjourning of action halfway.
- (c) Contributions and surcharges in arrears totalling Rs. 6,256,456,427 by 31 December 2014 from 114 offices of the Sri Lanka Transport Board throughout the Island had remained unrecovered.
- (d) The Fund had failed to recover contributions and surcharges amounting to Rs.49,462,817 of the Employees' Provident Fund payable for the period from September 2009 to December 2010 for the employees of the Ceylon Fisheries Corporation.

- (e) Late surcharges amounting to Rs.14,379,993 recoverable from 169 Local Authorities for the period from the year 2000 to the end of the year 2013 could not be recovered even by 30 June 2015 due to non-sending of notices as prescribed.
- (f) Unpaid contributions and surcharges amounting to Rs. 65,198,717 recovered from instituting lawsuits during the period from the year 2005 to 2008 had been credited to the Government Revenue due to unavailability of correct information in the Fund in respect of relevant members.

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

Reference to Laws, Rules, Regulations, etc.	Non-compliance
Treasury Circular No. 842 dated 19 December 1978.	Even though the fixed Assets amounting to Rs.803,429,255 received from the Department of Labour shown in the financial statements as at 31 December 2014, should have been recorded in the Register of Fixed Assets as per Form General 287, a register of fixed assets had not been maintained as per the relevant Format.
Public Finance Circular No. 02/2014 dated 17 October 2014	Annual Board of survey had not been carried out for the year under review to ensure the existence of fixed assets amounting to Rs.159,280,110 located in the premises of the Central Bank of Sri Lanka.
Section 8.7 of Public Enterprises Circular No. PED 12 of 02 June 2003.	The Fund had paid a sum of Rs. 26,124,841 for the period from the year 2011 to 2014 without recovering income tax from the relevant officers of the Central Bank of Sri Lanka on their employment income who had been working at the Employees' Provident Fund.
Paragraph 3 (1) of Treasury Operations Circular No. 01/2008 dated 03 March 2008 .	Even though investment of Funds, obligated either directly or indirectly to the Government, in a certain financial Institutions except in State Banks should have been suspended with immediate effect, the Employees' Provident Fund had purchased Treasury Bonds costing Rs.44,041,102,093 with the face value of Rs.37,940,740,000 from 12 Non –governmental financial institutions at 135 instances in the years 2013 and 2014.

### 3. Financial Review

#### 3.1 Financial Results

The financial result of the Fund for the year under review had been a net profit of Rs. 150,661,909,688 and the corresponding net profit of Rs.125,609,876,617 for the preceding year, thus indicating an improvement of Rs.25,052,033,071 in the financial result for the year under review as compared with the preceding year. The increase of investment income by Rs.26,862,070,856 had been mainly attributed to this improvement.

### 4. Operating Review

#### 4.1 Performance

The following observations are made.

(a) The performance as at the end of the year 2014 was as follows.

Description	Actual Amount	Amounts related to the operation of the Fund	Percentage %
Employment of private and semi Government Sectors	3,723,947	2,400,000	64.44
Employers	235,872	71,000	30.10
No. of members' Accounts of the Fund	15,400,000	2,400,000	15.58

(Source: Central Bank of Sri Lanka - Employees' Provident Fund 2014)

The contribution credited to 12,799,572 dormant members' accounts of the Fund as at 01 January 2014 amounted to Rs.632,989,206,006 while the interest credited for those account-holders for the year 2014 amounted to Rs. 63,540,018,009. The number of these dormant member accounts represented 83.11 per cent out of the total member accounts.

(b) Even though 13,885 cases throughout the island had been instituted by the Fund for the recovery of contributions and surcharges amounting to Rs.10,880,797,461 of the Employees' Provident Fund from the year 2010 up to the end of the year 2014, a database had not been maintained so as to obtain the information on amount collected from such cases and number of cases settled.

(c) Benefits paid to the members

Year	2014	2013	2012	2011	2010	2009	2008
Benefits paid (Percentage)	10.5	11	11.5	11.5	12.5	13.75	13.2

The following observations are made.

- (i) The percentage of benefits paid to members had decreased by 1 per cent than that of the preceding year due to decrease of investment income by Rs.5,049,303,683 in the year 2011.
  - (ii) Since the income earned in the year was not sufficient for the payment of dividends in the years 2012 and 2013, a sum of Rs. 5,700,000,000 and Rs.3,700,000,000 respectively had to be credited to the income from the dividend equalization reserve.
  - (iii) The percentage of members benefits paid in the year 2014 had been reduced up to 10.5 per cent, as a result of making a provision of Rs. 6,000,000,000 to pay the bonus for members in terms of the Annual Budget for 2015 presented to Parliament on 24 October 2014 by the Minister of Finance and a sum of Rs. 4,000,000,000 had been transferred to the Dividends Equalization Reserve. But the relevant bonus could not be paid to the members even by 31 December 2015 due to non-completion of legal provisions.
- (d) A scheme of housing loan by keeping the account balance of the Employees' Provident Fund as a security had been introduced through 05 Statutory Institutions affiliated to the Government and State Banks since the year 1998. Accordingly, loans of Rs. 8,021 million had been approved for 17,786 loan certificates in the year 2014 and the amount defaulted out of these loans during the relevant period amounted to Rs. 2,394 million. Similarly, loans amounting to Rs.55,806 million had been paid through 226,286 loan certificates during the period from the year 2000 to the end of 2014 and the defaulted loans of it amounted to Rs.19,131 million. Accordingly, it was observed that payment of outstanding loans had to be made to relevant Banks instead of making payments of dividends to members contrary to the main objective of the Fund.

#### 4.2 Management inefficiencies

-----

The following observations are made.

- (a) Despite the Court of law had decided at the end of a case instituted to obtain Employees' Provident Fund related to a case at the Labour Tribunal, Badulla, that the member was not an employee served under the relevant employer a sum of Rs.153,291 had been paid to such member who was the plaintiff.
- (b) Payment of a sum of Rs.45,789,888 related to 345 applications presented to obtain death benefits during the period from the years 1981 to 2014, had been delayed even by 31 July

2015 on 04 reasons. Thus, relevant beneficiaries were unable to obtain their benefits for over 30 years.

- (c) It was observed that a sum of Rs. 26,204,833 related to 187 applications presented for making payment to the Central Bank of Sri Lanka by the Commissioner of Labour during the period from 02 February 2006 to 30 April 2014 had not been paid, even though it had lapsed for about 09 years by 30 April 2015.
- (d) Employees' Provident Fund had granted a sum of Rs. 1.89 Billion as at 31 December 2014 for the building "Mehewara Piyasa" being constructed at the total estimated cost of Rs.8.557 billion with the contribution of the Employees' Trust Fund. Even though the Ministry of Finance had agreed to reimburse the money spent from the Fund due to non-agreement of the Attorney General in connection with the transferring of possession of the building premises in the name of Employee's Provident Fund in terms of the Employees' Provident Fund (Amendment) Act, No. 2 of 2012, the Fund had deprived of an income receivable in making Rs.1.52 billion in another investment, as such money had not been reimbursed even up to 30 November 2015.

### 4.3 Operating Inefficiencies

-----  
The following observations are made.

- (a) Investments of Rs.33,574,091,857 made in 48 Companies out of the entire long-term and short-term investments amounting to Rs.74,012,464,056 made in 85 companies as at 31 December 2014 had decreased by Rs.6,532,850,748 according to the market value as at that date. Share market value of the investment of Rs.35,227,924,125 made in 46 companies as at 09 September 2015, the date of Audit had decreased by Rs. 6,924,184,083.
- (b) Capital profit had been as low as Rs.231,124,603 or 0.31 per cent receivable from the transactions of the share market by 30 June 2015 for the total long-term and short-term investment of Rs.74,012,464,056 of the Fund existed as at 31 December 2014.
- (c) Thirteen Companies in which long-term and short-term investments were made amounting to Rs.3,001,170,533 as at 31 December 2014 had incurred losses in the year of accounts,2014/2015.
- (d) Returns received on investments of Rs. 332,657,367,841 made in the share market since the years 2008 to 2014 had ranged from 2.67 per cent to 22.99 per cent. Any income whatsoever had not been received to the Fund from 30 companies in which a sum of Rs.19,127,551,243 had been invested, by 31 December 2014.
- (e) Even though a sum of Rs. 705,489,614 had been spent during the period from the year 2011 to 2012 for the purchase of shares from an Aviation Company and a Finance company which were continuously run at losses, any return had not been received to the Fund from the said investments up to 31 October 2015, the date of Audit.
- (f) (i) Even though 23,712,200 shares of a Hotel Company had been purchased at the rate of Rs.34.17 per share by spending a sum of Rs. 810,321,610 according to a decision of the Monetary Board of the Central Bank on 05 May 2010, any return whatsoever had not

been received for such investment and the Market price of a share of this company in September 2015 was Rs.12.40.

(ii) A sum of Rs.9,759,255,039 or 13.19 per cent of the entire Employees' Provident Fund as at 31 December 2014 had been invested in the hotel field. But, any capital profit whatsoever from the investments of such field had not been received in the year 2014.

(iii) The income received for the Funds for the investment of funds in the hotel field from the year 2010 to 2014 remained at a low level ranging from 1.45 per cent to 2.86 per cent. Any benefit had not been received to the Fund for the long-term and short-term investments valued at over Rs. 3,000 million invested in 8 hotel companies in the years 2013 and 2014.

#### **4.4 Idle and Underutilized Assets**

-----

Even though 395 Tablet computers purchased for Labour Officers by spending a sum of Rs. 34,967,296 had been distributed among Labour Officers and Staff Officers, the activities of the computerization of labour investigation project which should have been commenced in the year under review had not been commenced even by 31 October 2015.

#### **4.5 Personnel Administration**

-----

The following observations are made.

(a) Fifty two vacancies of the approved cadre of the Employees' Provident Fund of the Department of Labour had existed as at 31 December 2014 while it was 107 as at 01 December 2015. It was observed that there were delays in the recovery of Employees' Provident Fund, prosecution and settlement of money due to non-filling of such vacancies.

(b) The Staff of the Central Bank of Sri Lanka attached to the Employees' Provident Fund had not an approved cadre by the Monetary Board and a staff of 138, 120, and 166 employees had been attached in the years 2012, 2013 and 2014 respectively. It was unclear in audit that the necessity of increasing the staff by 46 from 120 in the year 2013 to 166 in 2014.

(c) It was indicated that 30 per cent increase of cost per employee of the employees attached from the Central Bank of Sri Lanka as compared with the cost of Salary and the cost per employee attached from the Department of Labour in the year 2014.

### **5. Accountability and Good Governance**

-----

#### **5.1 Internal Audit**

-----

Internal Audit of the Fund had been carried out through the Department of Labour. Only a limited areas of the Fund had been covered by the internal audit as there were 2 vacancies existed in its approved cadre and insufficient staff. The Central Bank had entrusted the internal audit related to the financial control of the Fund to a private Audit Firm but the fields



such as the investment of funds and procurement procedure had not been covered thereby. Sums of Rs. 6,494,880 and Rs.4,871,160 had been paid to the relevant firm in the years 2013 and 2014 respectively, as audit fees.

## **5.2 Unresolved Audit Paragraphs**

-----

Several main audit paragraphs unresolved up to 31 October 2015 are shown below even though they had been reported in the years 2011, 2012 and 2013.

- (a) It was not identified even by 31 October 2015 that for what purpose a sum of Rs.83,410,920 recovered by filing cases in the Courts relating to the period from the year 2004 to 2011.
- (b) Outstanding contributions and surcharges totalling Rs.495,107,577 recoverable during the period from the year 2003 to 2013 from 31 State Plantations and 21 Janatha Estate Companies in two areas within the purview of District Labour offices of Kandy North and Kandy South consisting of Rs.208,378,193 and Rs.286,729,384 respectively had not been recovered even up to 30 June 2015.
- (c) Action had not been taken even up to 31 October 2015 to obtain contributions and surcharges amounting to Rs.16,703,661 recovered by the Magistrate Courts, Kandy from lawsuits finalized during the period from the year 1995 to 2013.
- (d) Action had not been taken to obtain, the contributions and surcharges amounting to Rs.313,452,501 related to the period from the year 2003 to 2006 from institutions within the purview of the District Labour Office, Colombo Central.

## **6. Systems and Controls**

-----

Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Commissioner General of Labour and the Governor of the Central Bank of Sri Lanka from time to time. Special attention is needed in respect of the following areas of control.

### **(a) Department of Employees' Provident Fund of the Central Bank of Sri Lanka**

-----

- (i) Consideration on investment benefits
- (ii) Paying attention on the investment of Funds and its returns through the Internal Audit.

### **(b) Employees' Provident Fund Division of the Department of Labour.**

-----

- (i) Recovery of contributions and surcharges
- (ii) Maintenance of fixed Assets Registers
- (iii) Inspection of Employer institutions.