Employees' Provident Fund - 2015

The audit of Financial Statements of the Employees' Provident Fund for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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 2015 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) Even though the nature and the objectives of the reserves maintained by an entity should be disclosed in the financial statements in terms of Sri Lanka Accounting Standard 01, adequate disclosures had not been made in the manner in which the Building Reserve Fund amounting to Rs.3,157,000,000, Technology Advancement Reserve Fund amounting to Rs.350,000,000, Investment Revaluation Reserve amounting to Rs.4,886,920,958 and the Profit Equalization Reserve Fund amounting to Rs.24,100,000,000 maintained by the Fund were initiated and the objectives thereof.

(b) Sri Lanka Accounting Standard 16

(i) Although an entity should disclose the opening and closing balance of the property, plants and equipment relating to the period, additions of the current year and a reconciliation statement on the depreciation of the year, only the cost, accumulated depreciation and the net value had been disclosed under the notes to the accounts in the financial statements.

(ii) As the useful life of the non-current assets had not been reviewed annually, fixed assets costing Rs.76,656,104 were further being used despite being fully depreciated. Accordingly, action had not been taken to revise the estimated error as required by the Sri Lanka Accounting Standard 08.

2.2.2. Accounting Policies

The following observations are made.

(a) In terms of the accounting policies adopted by the Fund, although the intangible assets of the Fund should be amortized within 2 years, those assets had been amortized over a period of 4 years.

(b) Although the printers and the web cameras valued at Rs.5,303,000 purchased in the preceding year had been classified under the computer accessories and provisions for depreciation had been made at 50 per cent, the printers and the web cameras valued at

Rs. 13,783,465 purchased during the year under review had been classified under the plants and machinery and provisions for depreciation had been made at 25 per cent.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) (i) Relevant actions had not been taken either to rectify or settle the transactions of 04 Bank accounts amounting to Rs.1,189,480,116 the particulars of which are shown below for the period from the year 2001 to 31 December 2015 and they had continuously been shown in the Bank reconciliation statements

Particulars of the transactions	**Value**
	(Rs.)
Direct deposits not recorded in the Cash Book	15,238,182
Dishonoured Cheques	77,066,561
Direct additions and deductions	172,999,021
Unidentified Balances	924,176,352
Total	1,189,480,116

(ii) Any action whatsoever had not been taken in respect of Cheques totalling Rs.125,875,423 issued but not presented to Bank during the said period, Cheques totalling Rs.33,217,979 deposited but unrealized and Money Orders totalling Rs. 52,333,018 and they had continuously been shown in the Bank reconciliation Statements.

(b) In the recognition of the impairment losses of the Fund, as the market price of the shares costing Rs. 216,935,905 of one hotel company was Rs.85,664,805, an impairment loss of Rs.131,271,100 had incurred. Nevertheless, it had been understated by Rs.2,861,220 and shown as Rs.128,409,880 in the financial statements.

(c) Unidentified balances totalling Rs.35,286,976 comprising a tax amounting to Rs.5,333,169 retained on the members benefits and a recoverable debit tax of Rs.29,953,807 had not been settled and those had been shown in the financial statements.

(d) As the balance amounting to Rs.23,829,409 further existed in the General Deposit Account maintained from October 2006 to March 2009 had not been brought forward, that balance had not been taken into consideration in the financial statements prepared for the Fund. Further, this balance included an income of Rs.5,607,020 generated from the sale of publications of the Fund relating to the years 2006,2007,2008 and 2009 and it had been retained in the General Deposit Account without being credited to the Fund.

(e) According to the financial statements, although the accrued expenditure relating to 08 Objects as at 31 December 2015 amounted to Rs.1,683,034, as an expenditure amounting to Rs.4,771,934 in respect of the accounted commitments of the year 2015 had been incurred in the year 2016, the expenditure of the year under review had been understated by Rs.3,088,900 in the accounts.

(f) Out of the acquisition amounting to Rs.7,341,794 made under the machinery and equipment in the year 2014, depreciation at 25 per cent had been considered for a sum of Rs.1,304,550 and the provisions for depreciation had not been made in respect of the balance sum of Rs.6,037,244.

2.2.4 Unreconciled Control Accounts

When comparing the carried forward opening balance of the General Deposit Account, in which employees' provident funds recovered through the institution of lawsuits were retained until they were credited to the individual accounts of the relevant members, as at 01 January 2015 according to the schedules and the balances brought forward as at 31 December 2015 with the balances shown in the financial statements, differences of Rs.31,264,738 and Rs.101,942,182 respectively were observed. Reconciliation statements had not been prepared thereon.

2.2.5 Unexplained Differences.

The following observations are made.

(a) (i) According to the bank confirmation, although the balance of a major bank account of the Fund as at 31 December 2015 was Rs.1,862,540,353, that balance had been taken as Rs.1,326,193,264 in the preparation of bank reconciliation statements. Accordingly, the value of the cash and cash equivalents had been overstated by Rs.536,347,089 in the financial statements.

(ii) According to the bank confirmation of a bank account not being used by the Fund at present for which bank reconciliation statements are not prepared, there was a balance amounting to Rs.53,255. However, it had been shown as Rs.6,777,369 in the financial statements and as such, a difference of Rs. 6,724,114 was observed.

(iii) According to the cash book of the bank account maintained for the direct debits and credits of the Fund, there was an unidentified balance amounting to Rs.25,748,778. The bank reconciliation statements on this account had not been prepared and there was no balance in that account according to the bank statement.

(b) There was a difference of Rs.28,746,225 between the value of furniture and office equipment, computers and software according to the Register of Fixed Assets of the Fund as at 01 January 2015 and the value stated in the financial statements. This difference had not been reconciled even by 31 December 2015.

2.2.6 Lack of Evidence for Audit

Although a balance of Rs.111,801,745 relating to the period even prior to the year 2000 had been stated under the Variance Clearing Account under the other current assets in the financial statements, no such balance had been confirmed by any bank.

2.3 Accounts Receivable and payable

The following observations are made.

(a) Although legal action had been taken against the Sri Lanka Transport Board by 29 September 2016 in connection with the recovery of contributions of the Employees' Provident Fund and the surcharge amounting to Rs.12,567,846,834, only a sum of Rs.2,707,516,716 had been recovered as at that date.

(b) Even though the Ceylon Fisheries Corporation had pledged to pay the contribution and surcharge amounting to Rs.60,691,262 relevant to the period from September 2009 to January 2010 in 18 installments, it had remained unrecovered even by September 2016.

(c) Late surcharges amounting to Rs.17,020,157 recoverable from 169 Local Authorities for the period from the year 2000 up to March 2016 could not be recovered even by 30 June 2016 due to the failure in sending notices as prescribed.

(d) According to the information of the Employees' Provident Fund Division, the value of contributions and surcharges in arrears remained unrecovered from 03 State Institutions as at 31 December 2015 amounted to Rs. 12,660,270. Out of that, the surcharge that remained unrecovered from a state aviation company relating to the period 2011-2013 amounted to Rs.10, 489,993.

(e) As the surcharge remained in arrears from a certain private institution providing services to the Fund relating to the period from the year 2000 to the year 2012 amounted to Rs.12,297,695, permission had been granted to settle the arrears in 36 installments, whereas only 16 installments had been paid to the Fund. Further, arrears amounting to Rs.1,867,252 relating to the period from July 2012 to December 2014 had not been recovered as well.

(f) A sum of Rs.1,320,017 shown under the sundry creditors had not been settled even by September 2016.

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

In terms of Section 8.7 of the Public Enterprises Circular No.PED 12 dated 02 June 2003, the Pay As You Earn Tax upon the employment income of the officers of the Central Bank attached to the Employees' Provident Fund had not been recovered from the relevant officers and a sum of Rs.19,310,689 had been paid by the Fund during the year under review. At the Committee on Public Accounts dated 26 February 2016, it had been informed that an arrangement be made, in consultation with the Secretary to the Ministry of Finance, to correctly update the methodology of making payments the Pay As You Earn Tax from the Fund in compliance with the instructions of the Budget and the Public Finance Circulars and to submit a report including the comments of the Governor of the Central Bank on this matter to the Committee. Nevertheless, such a report had not been submitted to the Committee even by June 2016.

3. Financial Review

3.1 Financial Results

The following observations are made.

The operations of the Fund for the year under review had resulted in a net profit of Rs.156,937,278,443 and the corresponding net profit for the preceding year amounted to Rs. 150,661,909,688, thus indicating a favourable improvement of Rs.6,275,368,755 in the financial result for the year under review as compared with the preceding year. The increase of interest income by Rs.15,556,537,975 had mainly attributed to this improvement.
An analysis of the financial results of the year under review and 04 preceding years revealed that, the profit after tax of the Fund amounting to Rs.107,202,066,000 in the year 2011 had continuously increased up to Rs.156,937,278,000 by the end of the year 2015. When taking into consideration the employees' remuneration income tax and the depreciation for the non-current assets, the contribution of the Fund amounting to Rs.115,752,094,000 in the year 2011 had ceaselessly improved up to Rs.171,470,351,000 by the end of the year 2015. However, it was observed that the contribution growth rate of 19.9 per cent in the year 2014 had decreased up to 4.9 per cent in the year 2015. Accordingly, the growth rate of the year 2015 had declined than 15 per cent than that of the preceding year.

3.2 Analytical Financial Review

The following observations are made.

(a) The Net Profit Ratio of the Fund had decreased from 91.9 per cent to 91.3 by 0.6 per cent during the year under review as compared with the preceding year, and the return on ordinary capital invested ratio had decreased by 0.85 per cent as compared with the preceding year.

(b) The impairment loss of Rs.2,956,640,674 incurred due to the continuous decrease in the market price of shares in several companies in which the Fund had made investments in long term and the increase in the operating expenditure by 14 per cent than the 4.87 per cent growth of gross income as compared with the preceding year had attributed to the decrease in the ratios referred to in (a) above.

3.3 Lawsuits Instituted Against or By the Fund

In order to recover the contributions and surcharges amounting to Rs.12,788,913,279, the Fund had filed 14,525 cases in the courts island wide.

4. Operating Review

4.1 Performance

The objective of the Fund was to establish a social security system for the employees engaged in the private and semi- government sector in Sri Lanka. The following matters were observed in audit test check carried out on the achievement of the above objectives.

(a) According to the Central Bank Report, the active number of employees who held the contribution of the Employees' Provident Fund was 2,400,000 or 64 per cent out of the total employment of 3,762,059 reported in the private sector and the semi-government sector by the end of the year 2015. The number of employees who held the memberships in other approved Provident Funds was 11 per cent only and the remaining 25 per cent had not held contribution to any Fund.

(b) The balance of the membership Fund as at 31 December 2015 was Rs.1,625.5 billion and it was a growth of 12 per cent as compared with 31 December 2014. However, the following observations are made on the membership Fund.

(i) A sum of Rs.8,142,008,401 recovered from the employers through the institution of legal action against them over their failure to pay contributions of the Employees Provident Fund had not been credited to the accounts of the members even by 31 December 2015. This balance had been Rs.5,982,176,693 and Rs.6,897,950,297 by the end of the years 2013 and 2014 respectively. Even though a sum of Rs.4,858,748,089 had been received to this account in the year 2015, only a sum of Rs.3,614,689,985 had been settled during the year. Accordingly, it was observed that the funds that remained unsettled in this manner accumulate in this account annually. Although the Chief Accounting Officer informed the Committee that the introduction of a computer software capable of expediting and improving the process of settling these funds was in progress according to the Recommendation No.7 (ii) of the Committee on Public Accounts dated 06 February 2013, an annual increasing trend in the unsettled balances was observed.

(ii) The contributions received to the Fund are retained in a General Deposit Account until they are settled by the Department of Labour and a sum of Rs.115,437,334 received in the year 2015 had accumulated in this account and the total amount settled was Rs.95,341,632 The balance due to be further settled as at 31 December 2015 was Rs.223,960,708. In addition, a sum of

Rs.15,797,407 recovered through the institution of court cases had been retained in a General Deposit Account. Similarly, the balance of the contribution which had not been credit to the members accounts and recorded in the Under / Over Contribution Account by the end of the year 2015 amounted to Rs.1,494,294,421. Although the discussions were held on these balances and directives were issued to settle them without delay at the Committee on Public Account dated 26 February 2013, action had not been taken accordingly.

(iii) In claiming benefits from the Fund by the members, although the relevant benefits had been computed, a sum of Rs.526,999,750 had existed in the Members' Fund as retained benefits and unclaimed benefits as at 31 December 2015 without paying those benefits to the members in accordance with the instructions of the Commissioner General of Labour and it was an increase of 87 per cent as compared with the balance as at the end of the year 2014. As a balance more than the balances settled from these accounts accumulates annually and annual interests are not entitled to these balances, it is essential to pay the attention of the Fund on formulation of a methodology for the settlement of these balances expeditiously. In terms of Recommendation 07 (1) of the Committee on Public Accounts held on 19 August 2014 it had been stated that, since there was a fault in the present system regarding the prevention of the delays in the payment of benefits to the members, a suitable and efficient methodology be prepared taking into consideration those matter as a major management issue. Nevertheless, such a step had not yet been taken and this balance was further being increased.

(iv) Even though an amount totalling Rs.474,139,934 comprising the unsettled balances of the Under and Over Refund Payment Account amounting to Rs.469,267,019, the Clearance Account relating to the Receipts of Goods and Services amounting to Rs.4,356,884 and the balance of the Opening Balances Reconciliation Account amounting to Rs. 516,031 as at 31 December 2015 were shown in the financial statements, a considerable progress regarding the settlement of those balances could not be seen.

(c) (i) In terms of the Employees' Provident (Amendment) Act, No.02 of 2012 and Section 23 (a) subsequently added to Section 23 of the Principal Act, the payment of 30 per cent out of the amount deposited to credited as the membership funds to the members who fulfill the requirements of the Act as the housing and medical benefits was commenced in May 2015 and the total number of applications received as at 31 December 2015 was 71,456. Out of them, the number of applications determined as qualified for the payments was 68,215 of them , a sum of Rs.8.46 billion had been paid for 10,074 applications.

(ii) However, as the legal process required to carry out the follow up action to ensure whether the contributions thus redeemed by the members are utilized for the particular purposes indicated in the Act had not been set out in the above amended Act, it could not be ruled out that there would be a possibility of using that money for another purpose subsequent to the receipt of the contribution money.

(d) In terms of Section 14 of the Employees' Provident Fund Act, No. 15 of 1958, interest at such rate, not less than two and a half per centum per annum, as may from time to time be fixed by the Monetary Board shall be paid for each year, out of the income from the investment of the moneys of the Fund, on the amount standing to the credit of the individual account of each member of the Fund as at the thirty-first day of December in the year. Even though the interest rates paid in such a manner in the year 2015 and the preceding years had gradually declined from 13.75 per cent to 10.5 per cent from the year 2009 to 2015, it had become equal in the preceding year and the year under review representing an interest rate of 10.5 per cent. In addition to that, a sum of Rs. 6,000 million allocated for paying a bonus to the members, had been transferred to the Profit Equalization Reserve in the current year as the legal framework required in that connection had not been formulated.

4.2 Management Activities

The following observations are made.

(a.) Even though a sum of Rs. 1,890.5 million had been given by the Employees' Provident Fund as at 31 December 2014 for the "*Mehewara Piyasa*" building proposed to be constructed with the contribution of the Employees' Provident Fund, the Ministry of Finance had agreed to reimburse the money incurred by the Fund owing to an issue relating to the ownership of the land at which the building had been located. The following observations are made in this connection.

(i) As the Ministry of Finance had agreed to reimburse only a sum of Rs. 1,852.4 million out of the total amount incurred, a loss of Rs. 38.1 million had been sustained by the Fund in respect of this project.

(ii) Of the sum amounting to Rs. 1,852.4 million agreed to be reimbursed, a sum of Rs. 370 million had been given by September, 2015, and another sum of Rs. 400 million had been given in March, 2016. Nevertheless, Rs. 1,082.4 million of the total sum representing 58 per cent had not been reimbursed even up to June 2016.

(b.) The Fund had commenced the housing loan facility for its members in collaboration with 05 state banks in the year 1988, wherein the unsettled outstanding loan balance of the member is settled to an institution to which loans are given by the Fund. The sums paid in the years 2013, 2014, and 2015 to the relevant banks as unsettled outstanding loans amounted to Rs. 2,178 million, Rs. 2,394 million, and Rs. 2,522 million respectively.

(c.) Even though the Board of Survey for the year 2015 conducted in respect of the computers and accessories valued at Rs. 389,269,548 purchased by the Fund for the Department of Labour, had been completed, the implementation of its recommendations in accordance with Public Finance Circular 05/2016, dated 31 March 2016, had not been completed even by September 2016.

4.3 Operating Activities

4.3.1 Investment in the Treasury Bonds

The Employees' Provident Fund, considered to be a chief investor in the amount of Public Debt, had purchased Treasury bonds only from the Department of Public Debt through the primary market within the first 04 months of the year 2015. Thereafter, in the other months except for the months of August and September, action had been taken to purchase the Treasury bonds from the secondary market as well. Particulars are given below.

Month	Purchases from the Primary Market	Purchases from the Secondary Market	Total Investment	Approved Monthly Amount	Investment in excess of the Amount Approved	Percentage of Increase
	(Rs. Million)	(Rs. Million)	(Rs. Million)	(Rs. Million)	(Rs. Million)	%
January	31,054	-	31,054	31,000	54	0.17
February	8,850	-	8,850	8,500	350	4.12
March	17,590	-	17,590	15,000	2,590	17.27
April	28,801	-	28,801	25,000	3,801	15.20
May	6,238	703	6,941	8,000	(1,059)	(13.24)
June	17,669	16,141	33,810	10,500	23,310	222.00
July	31,440	4,683	36,123	31,000	5,123	16.53
August	20,640	-	20,640	11,500	9,140	79.47
September	44,180	-	44,180	37,000	7,180	19.41
October	1,027	3,655	4,682	4,000	682	17.05
November	12,399	50,401	62,800	13,000	49,800	383.08
December	13,957	8,745	22,702	15,000	7,702	51.35
	233,845	84,328	318,173	209,500	108,673	51.87

The following observations are made.

(a.) The total investment made in the bonds during the rest of the months except for May, in the year 2015, had exceeded the estimated monthly investment approved by the Monetary Board. For the months of June, August, November and December, the estimated investment had been exceeded by 222 per cent, 79 per cent, 383 per cent, and 51 per cent respectively. Furthermore, of the total investments made in the months of June, October, November, and December, 48 per cent, 78 per cent, 80 per cent, and 39 per cent had respectively been purchased from the secondary market.Further, Investments had been made in the secondary market in the months of June and November in excess of the monthly limits approved by the Monetary Board.

(b.) Under the International Securities Identification Number (ISIN) LKB02035C155 issued at the end of October, 2015 the Fund had purchased bonds valued at Rs. 10.26 billion from the primary market at the yield rate of 11.10 -11.20 per cent. Nevertheless, the bond under the same ISIN valued at Rs. 8.57 billion had been purchased from the other primary dealers of the secondary market in November 2015 under lower the effective rate of 9.65-10 per cent. The sum approved to be invested in the bonds in October, 2015 had been as low as Rs. 04 billion as compared with all other months. Approving sums of Rs. 37 billion and Rs. 13 billion for the months of September and November respectively, had been controversial.

(c.) The presentation of bids by the Employees' Provident Fund to the primary market in March 2016 in the issue of bond valued at Rs. 40 billion, had been at a lower level. Particulars are given below.

International Securities Identification Number	**effective rate**	**Total Value of Bonds Issued**	**Value of Bids Presented by the Funds**	**Value of Bids accepted**	**Percentage**
	%	**Rs. Million**	**Rs. Million**	**Rs. Million**	**%**
LKB00520E014	-	10,272	-	-	0
LKB01025C157	13.35	21,475	1,000	1,000	4.7
LKB01226F014	13.45	17,010	500	500	2.9
LKB01530E152	13.65 13.70	28,975	1,000	1,000	3.5
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		77,732	2,500	2,500	3.2
		=====	=====	=====	=====

Even though the Fund had always applied for more than 20 per cent of the bonds issued in the year 2015, less than 5 per cent of the total issue had been applied through the primary market in the said bond issue, and the bids presented had been accepted in all those instances. As such, the opportunities in which purchases could be made from the primary market under high effective rate of over 13 per cent, had been deprived of by the management.

(d.) Despite few bonds stated in (c) above had been purchased by the Fund from the primary market in March, 2016, the bonds under the same number had been purchased from the secondary market in April 2016. Bonds valued at Rs. 6.37 billion had been purchased from the bond under the International Securities Identification Number LKB01530E152 at the effective rate of 12.4 – 12.5 per cent. Nevertheless, an effective rate of 13.65 – 13.70 per cent had been paid at the primary market. Furthermore, bonds valued at Rs. 0.93 billion had been purchased from the secondary market at an effective rate of 12.2 Per cent which had been lower than that of 13.45 per cent at the primary market for the bond under the International Securities

Identification Number LKB01226F014. As such, it could not be ruled out that a considerable financial loss had been sustained by the Fund.

(e.) Bonds valued at Rs. 8.09 billion had been purchased from the secondary market in March and April, 2016 at the effective rate of 11.9 – 12.5 per cent which was lower than that of 13 per cent at the primary market. Accordingly, as the Fund had purchased a higher number of bonds from the secondary market that yielded lesser returns, the Fund had lost the financial gain that would have been resulted by purchasing a lesser number of bonds from the primary market yielding higher returns.

4.3.2 Investments in the Share Market

The following observations are made.

(a.) From the date of investment up to 31 December 2015, the Fund had received no returns whatsoever in respect of the investment of Rs. 500,000,000 made in July 2012 to purchase 1,863,676 units of an airline company. The value of those investments had been written off from the financial statements as a loss in the year 2015. The accumulated loss sustained by this company amounted to Rs. 128,238 million by the end of the financial year 2014 / 2015.

(b.) From the date of investment up to 31 December 2015, the Fund had received no returns whatsoever in respect of the investment of Rs. 205,489,614 made during the period February - November, 2011 to purchase 5,091,200 shares of a finance company. At the time of purchasing those shares, this company had sustained a loss of Rs. 4,286 million, whereas its accumulated loss amounted to Rs. 19,135 million by the end of the accounting year 2015 / 2016. Matters such as, a qualified audit opinion on the company, factors to minimize the uncertainty of going concern of the company, and failure to comply with the Directive, Nos. 01 of 2011 and 02 of 2006 of the Central Bank of Sri Lanka, had been emphasized in the audit report.

(c.) In respect of the investment of Rs. 810,321,610 made in May 2010 to purchase 23,712,200 shares of a hotel company, no return whatsoever had been received by the Fund from the date of investment up to 31 December 2015. As per a conclusion of the Monetary Board of the Central Bank of Sri Lanka on 05 May 2010, the market price of a share purchased at Rs. 34.17, had declined to Rs. 10.50 by the end of December, 2015.

(d.) The Employees' Provident Fund had purchased 11,324,228 shares from an IT company at a value of Rs. 43,925,523 in the year 2013, and profitability of this company had not been taken into consideration prior to the said purchase. At the time of purchasing the shares, this company had sustained a loss of Rs. 478 million, and the auditors of the company had presented an opinion that there had been a material uncertainty in the continuous operation of the company. However, the value of the investment had declined up to Rs. 3,397,268 by 92.27 per cent by the end of December 2015. Hence, there had been an uncertainty in recovering the moneys invested in this company.

(e.) The total capital and dividend income received by the Fund in the year 2015 from the investments in the share market had been around 4 per cent as compared with the cost of the entire investment. The returns from all 13 sectors had been at a lower level than 5 per cent.

(f.) As the share market price of 07 companies wherein the Fund had made long-term investments, had materially declined as compared with its cost, the Fund had sustained an impairment loss amounting to Rs. 2,956,640,674 in the year 2015, and 37 per cent of that had been attributed by the decline in the share prices of a single company.

(g.) According to the financial statements, for purchasing shares on short-term and long-term basis, a sum of Rs. 43,920,391 had been invested by the Fund in the year 2015 in 03 companies sustaining losses, and of that, a sum of Rs. 43,293,742 had been invested on short-term basis in 02 companies sustaining losses.

(h.) Out of the companies included in the ordinary shares investment portfolio of the Fund, a sum of Rs. 3,383,302,213 had been invested in 12 companies as at 31 December, 2015 portfolio. According to the published financial statements of those companies, 08 companies had sustained losses for the financial year 2014/2015, whereas 04 companies had sustained losses for the financial year 2015/2016. No dividend income whatsoever had been received from 07 of those companies for the financial year 2015.

4.3.3 Supervising Activities

In terms of Section 27 of the Employees' Provident Fund Act, No. 15 of 1958, the Fund had not conducted a formal supervision even by the end of September, 2016 in respect of the loss incurred by investing a sum of Rs. 03 billion in a private company from the private provident fund maintained by a public corporation under the supervision of the Commission of Labour. and the impact caused on the fund thereby.

4.4 Delayed Projects

The following observations are made.

(a.) Even though 395 tablet computers purchased in the year 2014 by incurring a sum of Rs. 34,967,296 to be used by the Labour Officers, had been distributed among the Labour Officers, and Staff Officers, all modules of the project could not be implemented even as at 31 December 2015, due to objections raised by the Labour Officers to computerize the labour inspection information while they were in the field.

(b.) In collaboration with 02 other public institutions, the Fund had invested a sum of Rs. 05 billion by the end of the year 2013 in a hotel complex planned to be constructed at a total cost estimate of Rs. 12 billion. According to the share holders' agreement signed on 04 June 2013 in that connection, it had been decided to list the shares of this company in the share market before the end of the year 2015. Nevertheless, due to delays in the construction of the hotel, those activities had not been completed even by June, 2016. As such, no return whatsoever had been received by the Fund from the date of this investment.

4.5 Personnel Administration

The following observations are made.

(a.) The cost per employee of the Fund is given below with respect to the years 2014, and 2015.

	Year 2015		**Year 2014**	
	Department of Labour	**Central Bank of Sri Lanka**	**Department of Labour**	**Central Bank of Sri Lanka**
Cost of Salaries (Rs.)	342,557,976	405,941,432	260,279,845	318,332,546
Actual Cadre	244	154	176	166
Cost per Employee (Rs.)	1,403,926	2,635,983	1,478,863	1,917,665

In the comparison the cost per employee of the Employees' Provident Fund of the Department of Labour, the cost per employee of the Central Bank of Sri Lanka had increased by 88 per cent and 30 per cent in the years 2015, and 2014 respectively. Hence, as compared with the preceding year, the improvement of the cost per employee of the Central Bank of Sri Lanka had been 37 per cent in the year under review. This had mainly been attributed by the salary anomalies between the Department of Labour, and the Central Bank of Sri Lanka.

(b.) By the end of the year 2015, there had been 107 vacancies at the Employees' Provident Fund of the Department of Labour comprising 17 vacancies in the staff grade, 88 vacancies in the non-staff grade, and 02 junior grade vacancies. The vacancies in the posts of the senior grades, had effected on the settlement of funds, and the delays in taking legal actions.

5. Accountability and Good Governance

5.1 Internal Audit

Even though the approved cadre of the internal audit division of the Department of Labour that administers the Fund, had been 08, the actual number had been limited to 07. It was observed that the approved number had been insufficient based on the number of transactions taking place, and the number of regional offices of the Department had been 57. Even though a directive had been issued at the meetings of the Committee of Public Accounts held on 06 February 2013, and 19 August 2014 that the internal audit of the Department be strengthened, action had not been taken accordingly to conduct audits by attaching a sufficient staff.

5.2 Audit Committees

Meetings of the audit committees of the Fund are held together with all institutions under the purview of the Ministry of Labour, and in addition to that, a separate audit committee is maintained under the Department of Labour without participants from the Central Bank of Sri Lanka and its internal auditors who administrated the financial activities of the Fund. Attention is drawn on the necessity of establishing a separate audit committee with respect to a fund with net assets amounting to Rs. 1,665 billion.

5.3 Unresolved Audit Paragraphs

The current progress in the implementation of directives issued by the Public Accounts Committee are given below.

Directive No.	Directive and Current Position
No. 07 (03), dated 19 August 2014	Despite being instructed that the existing law be revised to prioritize the recovery of employee equity and compensation recoverable from a company when it is liquidated, and the committee had been informed that the approval of the Legal Draftsman had been received in that connection, the revised Act had not been approved even by June 2016.
No. 08, Dated 26 February 2016	Despite being stated that a proper plan be prepared for the 10 ensuing years in collaboration with the relevant institutions in order to proceed with the Employees' Provident Fund, those activities had not been done even by June, 2016.
No. 09, dated 26 February 2016	Even though it had been stated that a report on the possibility of introducing a single computer software by linking the Department of Labour and the Central Bank in order to improve the information technology process of the Fund, be furnished to the committee before 23 March, 2016, such a report had not been furnished even by the end of July 2016.

5.4 Fulfilling the Social Responsibilities

As the employees of the Fund have exceeded the age of 55 at the time of retirement, the productivity of the service being provided for the members could be improved by preparing a methodology enabling the completion of documents required for obtaining the contribution to the Employees' Provident Fund thereby getting the moneys released at the time of retirement with emphasis on the livelihood and social security of the members. It is important to pay more attention thereon.

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.

Area of Systems and Controls	**Observation**
(a.)Members' Accounts	The methodology for crediting the contributions of the members of the Fund to their personal accounts, that had not been credited already, and paying the retained benefits to the owners, had not been made effective.
(b.) Investments	There had been instances in which investments had not been made in a manner that the Fund received maximum benefits.
(c.) Internal Audit	Due to failure in assigning a staff sufficient for the internal audit based on the scope of the institution, an internal audit had not been carried out covering all the areas.