

## **Public Service Provident Fund - 2015**

---

The audit of financial statements of the Public Service Provident Fund for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the income and expenditure account and the 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(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 24(1) of the Public Service Provident Fund Ordinance (Cap. 621) of 1942. My comments and observations on the aforesaid financial statements 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 the Sri Lanka Public Sector 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 audit conducted in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810).

### **1.4 Basis for Disclaimer of Opinion**

---

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items and the elements making up the statement of financial position, income and expenditure statement and cash flow statement.

## **2. Financial Statements**

---

### **2.1 Disclaimer of Opinion**

---

Because of the significance of the matters described in paragraph 2.2 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.

### **2.2 Comments on Financial Statements**

---

#### **2.2.1 Sri Lanka Public Sector Accounting Standard – 01**

---

The following observations are made.

- (a) Even though the assets which are realized within 12 months after the reporting date, should be shown as current assets, investments on Treasury Bonds and Treasury Bills totalling Rs.12,329,351,667 due to be matured in the year 2016, had been shown under non-current assets.

- (b) Receipts of contributions of members had been brought to account on cash basis deviating from the accrual basis.
- (c) Treasury Bills amounting to Rs.10,500,000 invested on 04 January 2016 had been recorded as investments relating to the year under review.

### **2.2.2 Accounting Deficiencies**

-----

The following observations are made.

- (a) Accrued expenditure for the year under review had been understated by Rs.8,181,370 in the account.
- (b) Even though debit balances totalling Rs.16,402,098 comprising a sum of Rs.3,369,222 relating to the year 2009 and prior years and a sum of Rs.13,032,876 relating to the years 2010 to the year 2015 and credit balances amounting to Rs.85,823 relating to the years 2009 had remained in the Ledger Account as erroneous debits and credits, those had been brought forward without identifying and settling even by the end of the year under review.
- (c) Receipts of compulsory contributions amounting to Rs.20 million and receipts of the Government contribution relating to that amounting to Rs.30 million had been brought to account as receipts of contributions of the year under review due to erroneous recording.
- (d) The interest income from investment of Treasury Bonds had been understated by Rs.335,196,303 and the interest income from investment of fixed deposits and investment of Rupee Loans had been overstated by Rs.1,888,731 in the account relating to the year under review.
- (e) The interest income receivable from Treasury Bonds as at 31 December 2015 had been overstated by Rs.18,006,622 and the expenditure on tax for the interest income from investments had been understated by Rs.589,704 in the account.

### **2.2.3 Unexplained Differences**

-----

The following observations are made.

- (a) A difference of Rs.264,815,707 was observed between the balances of the cash and cash equivalents according to the Cash Flow Statement and the Statement of Financial Position as at 31 December 2015.
- (b) According to the Statement of Financial Position, the balance of the investments in Treasury Bonds as at 31 December 2015 amounted to Rs.40,786,765,676 and according to the relevant schedule, that balance as at that date had been Rs.41,320,115,659, thus indicating a difference of Rs.533,349,983.

#### 2.2.4 Lack of Evidence for Audit

-----

The balance of Rs.17,389,588,560 of the Compulsory Contribution Account and the balance of Rs.26,677,186 of the Voluntary Contribution Account as at the end of the year under review and the contributions of Rs.734,148,603 paid in the year under review could not be satisfactorily vouched or accepted in audit due to the failure to maintain the Individual Accounts. Further, the outstanding balance receivable from contributors who pay the compulsory contribution as well, had not been computed.

#### 2.3 Accounts Receivable and Payable

-----

The accrued expenditure amounting to Rs.10,641,600 relating to the year 2014 had not been settled even by the end of August 2016.

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

-----

The following non-compliances were observed.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>
---	-----------------------

-----

(a) Public Service Provident Fund Ordinance (Cap. 621) of 1942	
--	--

-----

(i) Section 7(1)	
------------------	--

	Even though the Government contribution of 12 per cent should be obtained from the Deputy Secretary to the Treasury, contrary to that, action had been taken to obtain both the compulsory contribution and the Government contribution from the relevant institutions.
--	---

(ii) Section 25	
-----------------	--

	Even though the Director General of Pensions should inform the contributors in respect of the balances in the Members' Accounts as at 31 December after the close of each financial year, action had not been so taken even from the inception.
--	---

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
---	--

(i) Financial Regulation 188(2)	
---------------------------------	--

	An investigation had not been conducted in respect of 32 cheques valued at Rs.471,879 deposited from May 2014 to September 2015 but remaining without being cleared.
--	--

- (ii) Financial Regulation 396(d) Action in terms of the Financial Regulations had not been taken on 05 cheques valued at Rs.165,319 issued but not presented for payment though a period of 06 months had lapsed by 31 December of the year under review.
- (iii) Financial Regulation 486 Action had not been taken to account for the contributions relating to 21 dishonoured cheques valued at Rs.540,345 received in the year under review.
- (c) Treasury Circular No. 842 of 19 December 1978 A Register of Fixed Assets had not been maintained for fixed assets with the net value of Rs.233,621 as at the end of the year under review.

### **3. Financial Review**

-----

#### **3.1 Financial Results**

-----

According to the financial statements presented, the financial result of the Fund for the year under review had been a surplus of Rs.3,400,249,686 as compared with the corresponding surplus of Rs.3,227,101,270 for the preceding year, thus indicating an improvement of Rs.173,148,416 in the financial result of the year under review as compared with the preceding year. The increase in the interest income from investments by Rs.167,648,618 and the decrease in the personal emoluments by Rs.4,506,079 had been the main reasons for the above improvement.

An analysis of financial results of the year under review and 04 preceding years revealed that the surplus which was Rs.2,426,308,059 of the year 2011 had continuously improved since the year 2012 and become Rs.3,400,249,686 in the year under review. Taking into consideration the employees' remuneration and depreciation on the non-current assets, the contribution which was Rs.2,435,622,100 in the year 2011 had continuously improved since the year 2012 and become Rs.3,405,718,653 in the year under review.

#### **3.2 Analytical Financial Review**

-----

According to the financial statements presented, several ratios computed for the year under review are given below.

(a) Ratios of the Working Capital

(i)	Current Ratio	284:1
(ii)	Quick Ratio	175:1

Taking a high value of the receivable Government Contributions of approximately Rs.1,328 million had mainly impacted to the high range of the current ratio and quick ratio.

#### **4. Operating Review**

-----

##### **4.1 Performance**

-----

The Public Service Provident Fund has been established with a view to granting benefits to certain Government employees who do not receive pensions.

The following matters were observed at the examination carried out in respect of achievement of those objectives.

- (a) Out of the total number of 9,456 applications submitted by the members of the Fund for obtaining benefits, including the 3,214 applications available as at 01 January 2015, payments on 5,604 applications had not been made even by 31 December of the year under review.
- (b) An interest rate of 8.7 per cent along with the compulsory rate of 2.5 per cent had been paid for the year under review to the members of the Fund and 8.9 per cent had been paid for the year 2014. The interest rate paid to the members for the year 2015 as compared with the year 2010 and for the year 2015 as compared with the year 2014 had decreased by 3.3 per cent and 0.2 per cent respectively.

##### **4.2 Management Activities**

-----

The following observations are made.

- (a) The membership numbers had not been issued even by 31 December 2015 to 559 persons who submitted the applications for the registration for contribution scheme since August 2015. In receiving applications for the registration, the date of receiving the application had not been recorded and as such, the efficiency on issuing registration numbers could not be examined.

The Director General of Pensions has informed me that as the membership numbers are issued according to the order of receiving applications submitted by various institutions to the Public Service Provident Fund for obtaining the membership, those applications have to be checked and correspondence with the institutions have to be made again due to failure in taking action to complete duly and send the application received and due to shortcomings and errors of the documents which should be submitted and as such, those institutions have been made aware of by circulars. Nevertheless, applications with shortcomings are forwarded continuously and as a result, issue of membership numbers is delayed and membership numbers have been issued for 6,358 out of 6,717 applications received by the end of the year 2015.

- (b) In view of the failure to follow systematic and proper security processes in the maintenance of documents relating to operations and official works of the Fund, their insecurity could not be ruled out in audit.

- (c) The Government contribution recoverable from the Secretary to the Treasury as at 31 December 2015 had not been properly received to the Fund. As such, if the Government contribution amounting to Rs.2,696,345,662 receivable as at the date of commencement of the year under review could have been invested at a rate of 8 per cent interest of the normal Treasury Bonds, the interest income of Rs.215,707,653 which could have been earned, had been deprived of to the Fund.
- (d) The Government contribution of Rs.454,000,000 issued to the Fund from the General Account of the Department of Pensions on 31 December 2014 had been received on 08 October 2015 after delays of 9 months. As such, an interest income on investments of approximately Rs.24,005,525 had been deprived of for that period.

#### 4.3 Utilization of Funds

-----

Excessive amounts of balances had remained idle in the Current Account of the Fund in a Branch of a State Bank over a long period and as such, the interest income which could have been earned by investing that money in short term financial instrument had been deprived of. Several instances in respect of balances remained in the Current Account are given below.

<b>Duration</b>	<b>The surplus Balances that remained in the Account after allocating a sum of Rs.10 Million for Maximum Requirements of Working Capital</b>
-----	-----
From 02 to 29 January 2015	Balances between Rs.24,000,000 and Rs.51,000,000
From 03 September to 02 October 2015	Balances between Rs.81,000,000 and Rs.118,000,000
From 05 to 29 October 2015	Balances between Rs.158,000,000 and Rs.191,000,000

#### 5. Accountability and Good Governance

-----

##### Presentation of Financial Statements

-----

Even though the financial statements should be presented to audit within 02 months after close of the year of Accounts in terms of the Public Finance Circular No.PF/423 of 22 December 2006, the financial statements for the year under review had been presented only on 10 March 2016.

##### 5.2 Action Plan

-----

An Action Plan for the year under review had not been prepared.

### 5.3 Budgetary Control

-----

Variances ranging from 15 per cent to 174 per cent were observed between the budgeted and actual income and expenditure, thus indicating that the budget had not been made use of as an instrument of management control.

### 5.4 Internal Audit

-----

Even though the Internal Audit Unit of the Department of Pensions should carry out internal audit of the Fund, an audit had not been carried out for the year under review and preceding years

## 6. Systems and Controls

-----

Deficiencies observed during the course of audit were brought to the notice of the Director General of Pensions from time to time. Special attention is needed in respect of the following areas of control.

<b>Areas of Systems and Controls</b>	<b>Observations</b>
-----	-----
(a) Accounting	Non-preparation of financial statements of the Fund in compliance with Sri Lanka Public Sector Accounting Standards and improper maintenance of books of account.
(b) Members' Individual Accounts Control	Non-maintenance of Individual Accounts for contributors and failure to maintain Abatement Registers of Members in an updated manner.
(c) Financial Control	Failure to invest surplus funds so as to receive maximum benefits for the members, failure to enter receipts of cheques properly and supervise on accounting.
(d) Operating Management	Failure in carrying out operating activities efficiently such as issue of membership numbers and registration, repayment of members' contributions.