

Sri Lanka Social Security Board - 2015

The audit of financial statements of the Sri Lanka Social Security Board for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in reserves 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 13 (1) of the Finance Act, No. 38 of 1971 and Section 24(3) of the Sri Lanka Social Security Board Act, No.17 of 1996. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2) (c) of the Finance 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 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 my 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, statement of financial performance, statement of changes in reserves 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 Accounting Deficiencies

Unidentified deposits totalling Rs.4,059,413 relating to the period from the year 2004 up to the year 2015 had been shown in the Bank Reconciliation Statement as unidentified balances instead of accounting under Current Liabilities in the Statement of Financial Position.

2.2.2 Lack of Evidence for Audit

Registers including details such as the names, addresses, amounts paid, dates paid, cheque numbers relating to the benefits amounting to Rs.213,923,543 which had been paid by the funds of the scheme had not been made available to audit. As such, they could not be satisfactorily vouched or accepted in audit.

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

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

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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Sri Lanka Social Security Board Act,
No.17 of 1996

(a) Section 5(e)

Even though the prescribed actuarial, financial and operational reports in respect of pensions and the social security benefits scheme for self-employed persons should be maintained, action had not been taken accordingly.

(b) Section 15(1)

Even though it is mentioned in the Act that any contributor who evades paying 10 successive instalments loses the benefits therein, contrary to that, in the delay of payment of contributions, when the fine charged had equalled 10 instalments, those contributors had been made dormant.

(c) Section 15(2)

When a contributor has been deprived of the benefits under the policy issued to the contributors, the Board should notify it to that contributor. However, the dormant contributors could not be identified and as such, they had not been notified thereon even by 31 December 2015.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Board for the year under review had resulted in a deficit of Rs.1,596,828 as against the surplus of Rs.876,124 for the preceding year thus indicating a deterioration of Rs.2,472,952 in the financial result for the year under review as compared with the preceding year. Even though the income had

increased by Rs.20,545,345 , the increase in expenditure by Rs.23,018,297 had been the main reason for the above deterioration.

In the analysis of the financial results for the year under review and 04 preceding years, though the deficit of Rs.15,297,054 in the financial result for the year 2011 had increased up to Rs.18,535,954 in the year 2012, it had converted into a financial surplus in the years 2013 and 2014. Nevertheless, it had again converted into a deficit of Rs.1,596,828 in the year 2015. However, taking into consideration the employees' remuneration and depreciation for non-current assets, the contribution of the Board which was Rs.32,463,160 in the year 2011 had gradually improved and even though it had slightly decreased in the year 2014, it had increased up to Rs.90,874,614 in the year 2015.

4. Operating Review

4.1 Performance

In terms of Section 4 of the Sri Lanka Social Security Board Act, No.17 of 1996, the main function expected from the Board was to establish a Pension and Social Security Benefit Scheme for self-employed persons other than those in the Fisheries and Agriculture Sectors and to administer and manage such scheme.

The following matters were observed at the evaluation of performance of the Board relating to the year 2015.

- (a) Even though the total number of contributors enrolled for the Pensions Schemes by the Board as at 31 December 2015 stood at 494,294 , the number of dormant contributors of them could not be identified. However, there had been a tendency in the annual increase in dormancies, but attention had not been paid by the Board in holding the contributors within that scheme.
- (b) In the analysis of details of several preceding years, a decrease in receipts of contributions to the Pensions Fund and an increase in the payment of pensions were observed. The total receipt of contributions in the year 2015 amounted to Rs.156,235,114 and the total payments for the contributors amounted to Rs.213,923,543 thus representing 109 per cent of the receipts.
- (c) Cancellation of membership and repayment of contributions had been Rs.15,222,020 in the preceding year and it had increased up to Rs.24,444,852 in the year under review. As such, it was observed that there was a tendency in cancelling membership in large numbers and getting back money. Failure in informing the contributors of the outstanding contributions had been the main reason for the increase in this tendency.
- (d) The balance of the Pensions Fund Accounts by 31 December 2015 had been Rs.1,954,752,432 thus bringing the total investment value of the Board as at that date to Rs.1,821,504,103. The non-existence of a risk in the unavailability of adequate funds in the Board, for commitments of pensions in future for the Pensions Fund could not be ruled out in audit. Out of the contributions collected, in addition to the re-payment of

contributions, other expenses had been incurred in the preceding years and as such, the invested fund had been less than the contributed fund.

4.2 Management Activities

The following observations are made.

- (a) The Actuarial Assessment Report prepared by the Social Security Board for the Pensions Fund of the preceding year had been received in November of the year under review. According to that report, the commitment of the Board in the payment of benefits amounted to Rs.6.629 Billion. However, the investment value of the Fund at present amounted to Rs.1.861 Billion, thus indicating a difference of Rs.4.768 Billion by that report. Even though the Board of Directors had decided on 30 December 2015 to take speedy action thereon, necessary steps had not been taken even by 31 August 2016.
- (b) Even though a new computer system had been installed by the Board, spending a sum of Rs.23,947,068 from the Pensions Fund, the following deficiencies and problems had arisen in the operations.
 - (i) Failure in obtaining information on the dormant and active contributors and identifying contributors who had completed 60 years of age through the Pension Module.
 - (ii) Problems in obtaining reports due to operating both the old and new computer systems.
 - (iii) Failure in computerizing the contributory applications of the “Arassawa” pre-plan and preparing data relating to payment of pensions and incentives.
 - (iv) Even though all enrollments had been made relevant to the new computer system, the old computer system had been used in the payment of pensions after the year 2013. As such, the inability of obtaining the required information from the new computer system by the time the pensions should be paid to the contributors that had been included in the new computer system.
 - (v) In computerizing an instalment relating to a particular contribution number, one receipt can be computerized for one contributor or many contributors at the same time. As such, a possibility of a high risk remains in re-obtaining an amount which had not been paid, at the receipt of pensions and discontinuing of contributions without actually paying instalments to the contributors who pay instalments specially through banks.
 - (vi) According to the existing system of computerizing applications, only 9 identification numbers can be entered. However, according to the new identity card at present, 12 numbers should be entered. As such, the inability of including that facility in this computer system.

- (c) Provisions of Rs.16,114,794 had been made for the payment of gratuity in the accounts of the Board as at 31 December of the year under review. Nevertheless, in the instances of payments of future gratuity, a sum equal to that had not been invested so as to utilize therefor.

4.3 Transactions of Contentious Nature

A sum of Rs.195 Million had been paid out of the Pensions Fund to purchase a building to function the Head Office of the Board exceeding the Government assessment of Rs.165 Million without allocating necessary funds and following the Procurement Process.

5. Accountability and Good Governance

5.1 Corporate Plan

A Corporate Plan had not been prepared by the Board and presented to audit in terms of Public Finance Circular No.01/2014 of 17 February 2014.

5.2 Action Plan

The physical targets had not been shown in the Action Plan presented by the Board for the year under review. As such, it could not be examined whether actual levels had been physically reached so as to suit the financial targets achieved.

6. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the area of control relevant to the collection of contributions.

- (a) Delays in remitting and accounting the contributions to the Head Office.
- (b) Unavailability of a definite methodology in identifying the contributor in recording the instalments collected by banks.
- (c) Unavailability of a computer system to suit the requirements.