

## **Public Service Provident Fund - 2022**

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### **1. Financial Statements**

#### **1.1 Disclaimer of Opinion**

The audit of the financial statements of the Public Service Provident Fund for the year ended 31 December 2022 comprising the balance sheet as at 31 December 2022 and the income and expenditure account for the year then ended, and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 the provisions of the National Audit Act, No.19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

I do not express an opinion on the financial statements of the fund. Because of the significance of the matters described in paragraph 1.5 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### **1.2 Basis for Disclaimer of Opinion**

I expressed Disclaimer of opinion on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the fund's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements.

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an

audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 its internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and

- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws;

## 1.5 Audit Observations on the preparation of Financial Statements

### 1.5.1 Documentary Evidences not made available for Audit

The following observations are made.

	<b>Subject</b>	<b>Amount Rs. million</b>	<b>Unsubscribed Audit evidences</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	The number of members who have contributed to the Public Service Provident Fund was stated as 267,379 as of 31 December 2022 and due to the fact that information regarding each member was not entered into the data system, method had not been identified to accurately record the receipts and payments of contributions. Also, the value of the contribution amount receivable and the contribution amount payable at the end of the year had not been recognized and accounted.		Absence of a data system containing information about individual members.	The number of members of the Public Service Provident Fund was recorded as 267,379 as on 31 December 2022 by adding new members in 2022 to the number of members at the end of the previous year and deducting the members who paid benefits.	A proper data system should be maintained.
(b)	As the schedules for the amount of government contributions receivable as stated in the financial statements were not submitted, it had not been confirmed that which contributions were receivable from which organizations.	212.20	Individual Balance Schedules	Due to non-maintenance of individual accounts, it is not possible to ascertain that this figure is of which contributors balance.	Correctness of balances should be ensured by maintaining a proper database of individual accounts of contributors.

(c)	The balance of the mandatory contribution account and the balance of the government contribution account were not confirmed as the individual balance schedules were not submitted so as to be separated according to each contributor.	33,593.60 51,808.74	Individual Balance Schedules	It is essential to maintain single accounts to verify this balance and it is necessary to maintain the system which has been introduced at present for that. This has become quite a difficult task as there are organizations that do not take membership numbers any more.	Accuracy of the balances should be ensured by maintaining a data system.
(d)	The correctness of the balance of the Voluntary Contribution Account was not confirmed as the schedule containing the information of the beneficiaries was not submitted for audit.	51.98	Schedules with details of beneficiaries.	Voluntary contributions are currently not being made by members and calling information in writing for the application submitted to the payment and verified with the information available to the Public Service Provident Fund Division.	Accuracy of the balances should be ensured by maintaining a data system.

**1.6 Non-compliance with laws, rules, regulations and management decisions etc.**

<b>Reference to laws, rules, regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
Section 25 of the Public Service Provident Fund Act, 1942.	After the end of each financial year, even though the pension director should notify each contributor of the total amount to his credit in the fund on that date, system has not been developed to fulfil that requirement.	Due to the fact that most of the entities did not follow the process of sending contributions through the online system which was started in the year 2017 to provide the balance of individual accounts, it has not been possible to maintain individual accounts.	The provisions of the Act must be followed.

## 2. Financial review

### 2.1 Financial Results

The operating result of the year under review was a surplus of Rs.8,273.96 million and correspondingly the surplus of the previous year was Rs.6,570.59 million. Accordingly, an increase of Rs.1,703.37 million was observed in the financial result. This increase was mainly due to the increase in interest income on investments by Rs.1,707.58 million.

## 3. Operating Review

### 3.1 Management inefficiencies

The following observations are made.

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Evidence was not submitted to confirm the number of members of the fund in the reviewed year, the number of newly added members, the number of members who paid and left during the year and the number of members of the fund as of the end date of the year.	The current number of members of the Public Service Provident Fund is calculated after adjusting the number of members (new members) joining the Public Service Provident Fund annually and the number of members who have Cancellation of membership /benefitted after paying the applications received during the year. The number of members of the fund was shown continually by adjusting this figure to the closing membership of the previous year as shown in the annual accounts.	A proper data system should be maintained.
(b) Although the rate had been determined based on an average value of Rs.8,273.96 million of the initial monthly allocation value for allocating the interest income among the contributors, the audit did not reveal the basis for determining the rate. It was observed that the interest income is not fully distributed among the contributors due to Rs.1,741.90 million has been transferred to the general reserve in the year under review without being distributed among the contributors.	Interest disbursements have been made on this system since the past. The management board decides the interest rate to be paid to the members for each year and Rs.1,741.90 million has been transferred accordingly to the general reserve account in the year 2022. Necessary actions have been taken to increase the financial strength of the fund through its reserves and increase the interest earnings through investments.	A formal basis for disbursement of interest income should be approved.