

## **Employees' Provident Fund -2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Employees' Provident Fund for the year ended 31 December 2023 comprising the statement of financial position at 31 December 2023 and the statement of income and expenditure, statement of changes in members' wealth and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Employees' Provident Fund as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standard.

#### **1.2 Basis for Qualified Opinion**

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

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka 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 intend 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 to be prepared of the Fund.

#### **1.4 Auditor's Responsibility 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 exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risks of material misstatement of the financial statements, whether due to fraud or errors in providing a basis for the expressed audit 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 was obtained in order to design 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.
- 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. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. 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 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to relevant Standard	Comments of the Management	Recommendation
<p>According to the schedule for the calculation of depreciation for financial statements as at 31 December of the year under review, the value of fully depreciated fixed assets were Rs. 644.89 million and Rs. 167.01 million respectively for the Department of Labour and the Employee Provident Fund Division of the Central Bank of Sri Lanka. Action had not been taken to identify the assets that are still in use among those assets and to correct the estimation error, occurred due to not reviewing the useful life of assets accurately in accordance with paragraph 51 of Sri Lanka Accounting Standard No. 16, as per Sri Lanka Accounting Standard NO. 08 and to properly dispose of the assets that were no longer in use.</p>	<p>It had planned to take appropriate actions in accordance with accounting standards for fully depreciated fixed assets, as well as to properly dispose of fixed assets that are not in use, in the next year.</p>	<p>Action should be taken in accordance with Sri Lanka Accounting Standards.</p>

### 1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) According to the bank reconciliation statements prepared as at 31 December 2023 for nine bank accounts maintained by the Fund, a net amount totaling Rs. 4,757.69 million after making adjustments existed related to the period from 2001 to 31 December 2023, as balances which had not been settled. This net balance includes transactions recorded in the cash book but not recorded in the bank statement, transactions recorded in the bank statement but not recorded in the cash book, dishonored cheques, direct debits/credits, the balance existed as an error in the computer accounting system since 2006, money orders and cheques deposited but not realized and cheques issued but not presented. Out</p>	<p>Issues related to four bank accounts have been identified, and relevant bank reconciliation statements and the details regarding the adjustments have been prepared. However, due to the interconnection of the main account at the Bank of Ceylon with all other accounts, further adjustments may arise in the other four bank accounts when clearing that account. As a result,</p>	<p>Management should focus on reconciling the transactions of these bank accounts that have persisted for a long time.</p>

of this, a net balance of Rs. 1,336.98 million had not been settled even by 30 April 2024.

The amount of Rs. 273.72 million included in this unsettled net balance was a figure that had been set off against the unsettled transactions of Rs. 5,175.11 million in the cash book and the unsettled transactions of Rs. 5,448.83 million in the bank statement, and those balances persisted before the year 2018.

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|------------|---|--|---|
| <p>(b)</p> | <p>According to financial statements as at 31 December 2023, the cost of motor vehicle was Rs. 97.20 million, accumulated depreciation was Rs. 56.09 million and the net value was Rs. 41.11 million. As these balances have remained unchanged in the financial statements since 2018, it was observed that the motor vehicle amounted to Rs. 41.11 million had not been considered for the calculation of depreciation since 2018.</p>                                      | <p>Action will be taken to revise the current market value and useful life of motor vehicles through a vehicle revaluation.</p>  | <p>Depreciation of fixed assets should be brought to accounts according to the policy for the depreciation of fixed assets of the Fund.</p> |
| <p>(c)</p> | <p>According to the financial statements as at 31 December 2023, the cost of motor vehicles was Rs. 97.20 million. As per the information provided for the audit, there are 42 motor vehicles financed from the Fund so far and the total cost is Rs. 140.58 million. Accordingly, a difference of Rs. 43.38 million was observed between the motor vehicle cost stated in the statement of financial position and the cost of the motor vehicles financed from the Fund.</p> | <p>All the vehicles belonging to the department can be identified and the correct number of vehicles can be presented in the financial statements based on the Object of acquiring those vehicles or their transfers. The actual costs of the vehicles can already be identified through the SIGAS system, and steps will be taken to initiate corrections by recognizing these vehicles in the entire register.</p> | <p>All assets financed by the provisions of the Fund should be included in the statement of financial position of the Fund.</p>             |
| <p>(d)</p> | <p>The balance of Rs. 297.89 million in the "Mehewara Piyesa Interior Design Work in Progress" account as at 31 December 2023 should have been capitalized as office fixtures and depreciation accounted for, however, this had not been done.</p>  | <p>The Work in Progress account will be examined to identify the actual fixed assets, and steps will be taken to account for them in the future.</p>   | <p>Fixed assets should be capitalized and depreciated from the date they become available for use.</p>                                      |
| <p>(e)</p> | <p>A sum of Rs. 24.56 million had been incurred for the Interior Partition of the first floor of Labour Secretariat Office on 29 December 2023. Instead</p>   | <p>Steps will be taken to identify the actual fixed assets and account for them in the future.</p>   | <p>Capital and revenue nature expenditure should be clearly identified and</p>  |

of capitalizing this amount, it had been accounted as abuilding improvement expense.

prepare the financial statements.

### 1.5.3 Unreconciled Control Accounts or Records

<b>Item</b>	<b>As per Financial Statements (Rs.Million)</b>	<b>As per corresponding Record (Rs.Million)</b>	<b>Difference (Rs.Million)</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The balances of five sub-accounts included in the member account balance.	94,633	78,693	15,940	Individual accounts are maintained on cash basis while transactions are recorded on accrual basis in the general ledger. Therefore, there is a difference in the balances of these two systems on any given time by nature. To confirm that daily transactions occurring in the member account balances of both systems are accurately recorded, the accounts in both systems are compared daily.	Reconciliation statements should be prepared for the difference.

### 1.5.4 Documentary Evidence not made available for Audit

<b>Item</b>	<b>Amount (Rs. Million)</b>	<b>Evidence not available</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Property, plant and equipment	1,154.03	Asset register containing essential information such as the code number, date of purchase, fixed asset cost, and the location where the asset is installed.	There is no comprehensive register of all fixed assets. However, assets purchased under the Fund since 2016 have been entered and documented in the SIGAS software according to the categories.	Proper records should be maintained regarding the assets of the Fund.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Labour Department Circulars			
(i) Circular No. 01/99 dated 11 February 1999	<p>It was observed at the audit test checks carried out in relation to the Gampaha District Labour Office that there had been 70 instances, where it had taken 22 to 1438 days to issue the first notice to recover surcharges and contributions totaling Rs. 103 million after conducting institutional inspections pertaining to the years 2018 to 2023. Furthermore, final notices had not been issued to collect Rs. 13.46 million due in relation to 05 instances.</p> <p>From 2020 to 2023, a total of Rs. 52.73 million, Rs. 95.22 million, and Rs. 7.96 million were to be collected as contributions and surcharges from 61, 16, and 08 institutions respectively related to the Colombo North, Gampaha, and Kalutara district labour offices.</p>	<p>Delays have occurred due to factors such as the time taken to rectify deficiencies observed after entering D66 or C report data into the system for claims, computer breakdowns, requests for installment relief by the employer, instances where respective calculations needed to be amended, having left institutions addresses, institutions being closed and the inability to locate the employer, etc.</p>	<p>Members should be provided an optimal service by sending notices for the recovery of contributions and surcharges without delay.</p>
(ii) Section 1(IV) of the Circular No. 6/2000 dated 10 February 2000	<p>According to the monitoring data system of the Fund, there were 4,835 active registered institutions and 411 inactive/closed institutions related to the Gampaha District Labour Office as at 11 September 2023. Although the circular had given instructions that institutions that had not inspected for a long time should be selected for inspection</p>	<p>Labour officers are engaged in field activities for three days a week, and each officer inspects around 20 institutions per month. Additionally, the Assistant Labour Commissioner includes 05</p>	<p>Arrangements should be made to carry out inspections in relation to the institutions that have not been inspected for a long time and to allocate institutions that have not been assigned to sub-</p>

during the inspection of institutions, 84 per cent of the aforementioned institutions had not been inspected in the period from 2018 until 11 September 2023. Furthermore, it was observed that 8,483 registered institutions in the Gampaha zone had not been allocated to sub-zones, resulting in no supervision being conducted for those institutions.

inactive institutions to the list of institutions that should be inspected by each labour officer.

zones to their respective sub-zones and carry out the inspections.

- (b) Section 15 of the Employees' Provident Fund Act No. 15 of 1958
- Although the contributions related to employees of certain institution must be remitted to the Fund before the last day of the following month after the end of each month, institutions registered in 2022 within the arealimit of the Colombo North and Gampaha District Labour Office 89 and 109 institutions respectively had not made the relevant contributions even on 31 December 2023 since their registration dates, and no follow-up actions had been taken regarding this matter.
- Appropriate steps have been taken to identify institutions that had not paid contributions from the registered institutions and to initiate corrective actions through labour officers.
- Follow-up actions should be carried out systematically.
- (c) Section 3.4 of Procurement Guideline 2006
- Although registered suppliers or the suppliers registered in the yellow pages and the rainbow pages in the telephone directory should be selected for calling quotations during the procurement process, the method used to select suppliers for calling quotations for the purchase of computers, cameras, and printers totaling Rs. 27.89 million in the year under review, was not disclosed.
- As these suppliers are long-term engaged suppliers related to the procurement, efforts are being made to ensure that they are registered in the rainbow pages at the time of obtaining price quotations.
- Procurements should be conducted transparently in accordance with procurement guidelines.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review was a profit of Rs. 467,193 million and the corresponding profit of the previous year was Rs. 313,934 million. Accordingly, an improvement of Rs. 153,259 million was observed in the operating result. The increase in the interest income of the Fund by Rs. 93,150 million compared to the previous year, and the recognition of a profit of Rs. 23,836 million from fair value adjustment of financial instruments contributed to this growth.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) An amount of Rs. 5,000 million or 52 percent of the equity investment of unlisted companies was invested in a private company in the year 2013 and although the construction of the Grand Hyatt Colombo project which was to be operate under that company was required to be completed by 27 December 2021, the company had reported that the project could not be operational. Furthermore, the State-Owned Enterprises Restructuring Unit is currently taking necessary actions to facilitate the sale of this company. Therefore, although 11 years had passed since the aforementioned investment had made, the Fund had not received any return from the investment.	The concerned company is a subsidiary company under the Sri Lanka Insurance Corporation which is a government institution and it has been reported that the Cabinet has decided to sell it. Accordingly, the State-Owned Enterprises Restructuring Unit under the Ministry of Finance, Economic Reform, and National Policies is currently taking necessary actions to facilitate the sale of that company.	Investments should be made with a focus on minimizing risks, and efforts should be taken to recover the invested amount.
(b) Fund had not received any return during the year under review for the equity shares investments amounting to Rs. 17,401.39 million made in 15 listed companies as at 31 December 2023 and any return for year 2019 to 2023 for equity shares investments amounting to Rs. 4,390.49 million made in 09 listed companies.	Due to the crisis conditions that prevailed in the country during the period from 2019 to 2022, these institutions had not declared dividends in those years. The operational activities of these companies have improved in 2023, leading to a slight reporting of profits or minimal profit conditions. Accordingly, it is expected that these companies will be able to declare dividends in the future.	Making optimal investments that can provide higher returns to the members.
(c) The number of employers who were not registered with the Employees' Provident Fund and only registered with the Employees' Trust Fund	Actions are being taken to identify employers covered by the Employees' Provident Fund Act and to facilitate their registration with the Fund	Actions should be taken to register the employers that should be registered



Board was 28,994 as at 31 December 2023 and the total amount of contributions received from those employers to the Employees' Trust Fund Board on that day was Rs.401.25 million.

Accordingly, no appropriate procedures had been established coordinating with the Board to identify employers who should be registered with the Fund but have defaulted to register.

through labour officers in charge of the areas where their institutions are located.

with the Fund in accordance with the Act, through effective coordination between the two institutions.

- (d) An agreement was entered into with a private institution on 09 January 2020 to settle the outstanding bank account balances that have existed since 2001 in the Fund's bank reconciliation statements. Although the final report had to be submitted within 08 weeks from the date of the agreement, the desired objectives of the project had not been achieved even by the date of this report. However, 50 per cent of the contracted amount i.e Rs. 1.56 million had been paid by 31 December 2020.

The relevant institution submitted a progress report on 30 October 2020; however, as the reconciliation of the main bank account had not been completed, the relevant adjustments could not be used in preparing the final accounts for 2023.

Actions should be taken in accordance with the agreement to resolve the issues existing in the main bank account

### 3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) The amount of Rs. 12,237 million recovered by filing lawsuits against the employers in the account held in the name of "Commissioner General of Labour" and retained in the Central Bank of Sri Lanka, the amount of Rs. 440 million that had been retained in a General Deposit Account of the Department of Labour, the balance of Rs. 78,797 million held in the account named "Current Year Contribution No.01", the balance of Rs.1,009 million held as Retained Benefits and Unclaimed Benefits to members due to various reasons, the balance of Rs.2,590 million as Shortfall/Excess Contributions and the balance of Rs.552 million as</p>	<p>The presence of contributions referred without "C" reports, as well as contributions referred with incomplete or discrepant "C" reports, has caused difficulties in crediting these balances to individual accounts. In order to settle these balances, measures have been implemented including informing employers about contribution detail reports with discrepancies in member names and numbers, imposing a 2 per cent surcharge on the total amount for erroneous "C" reports, collecting contribution detail</p>	<p>Actions should be taken promptly to settle the unsettled contributions.</p>

Shortfall/Excess Refund Payments had been indicated under the member account of the Fund as at 31 December 2023 and the respective members who should be received had not been identified and settled.

The Committee on Public Accounts had also directed in the years 2013, 2016 and 2017 to expeditiously settle the aforesaid accounts, which had been maintained without crediting to the members' accounts.

reports through electronic means, and introducing automated methods for updating member accounts, etc.

(b) An amount of Rs 3.27 million was to be recovered from an employer in the area limit of Kalutara District Labour Office due to the default in payment of contributions for the period from October 2019 to April 2022. Although approval had been granted on 30 December 2022 to pay this amount in 32 installments, only four installments i.e Rs. 510,000 had been paid to the Fund by 30 June 2024 and actions had not been taken regarding the recovery of the remaining Rs. 2.76 million.

The necessary actions have been taken to promptly recover the outstanding installments.

Follow-up actions should be taken and recover the outstanding installments.

(c) As per a verdict issued in a case examined due to an employer in the area limit of the Kalutara District Labour Office failing to pay contributions from January 2011 to December 2020, resulting in an amount of Rs. 5.89 million had been recovered. However, the total amount of Rs. 1.14 million that should have been distributed among 07 members had not been disbursed even by 31 December 2023.

As the discrepancies in member names and numbers need to be resolved by the relevant institution, the institution has been notified in writing regarding this matter. Immediate action will be taken to correct as soon as the information received.

Follow-up actions should be taken and allocate the funds to the relevant members.

(d) The funds collected through legal actions against employers are held in a General Deposit account until they are disbursed, and the balance was Rs. 440.36 million as at 31 December 2023. Out of which Rs. 87.06 million was collected during the period between 2009 and 2022. Due to the failure to remit these funds to the Central Bank of Sri Lanka after identifying the respective members so that the members' individual accounts could be credited, the investment

Employees' Provident Fund Deposits include various amounts collected through legal proceedings as installments and the payment of this money has been delayed due to reasons such as inability to make payments until the total amount is collected, deposit holders migrating abroad and waiting for the heirs to present themselves due to the death of the original owners, etc. have

Actions should be taken to confirm the rights of the respective members and to provide them with optimal return based on said right.

income that could have been earned from these funds had lost to the members.

caused delays in the disbursement of these funds.

- (e) The Fund had filed 14,096 cases against external entities to recover a total of Rs. 12,755.09 million as at 31 December 2023. Among these, 4,381 cases aimed at recovering Rs. 2,420 million were in inactive status, while 2,138 cases for recovering Rs. 1,232 million were in open warrant status. Further, external entities had filed 62 cases in court against the Fund, seeking a total of Rs. 201.3 million.
- At the end of the year under review, the Fund had filed a total of 14,096 cases against external entities to recover Rs. 12,755.09 million, while external entities had filed a total of 62 cases against the Fund, seeking Rs. 201.3 million in total value. Out of these 62 cases, 32 had been filed by one private institution against the Fund in the years 2015 and 2019.
- Necessary actions should be taken and recover the outstanding amounts.
- (f) Out of the claims applications submitted by members to the Fund as at 8 May 2024, the total number of applications that had not been released the claims by that date was 5,559. Among those applications, 1,344 applications were received from 2012 to 2023, of which 463 applications were only entered into the data system without any further action being taken. Additionally, the number of application at the stages of Claims for Authorization and Claims for Approval were 81 and 172 respectively. It was observed that due to the long time taken for the claims releasing process, the delay in the release of funds to the members puts them in a disadvantageous situation.
- There has been delay in release of claims for applications due to various reasons, such as submission of files to committees where membership cannot be identified, issues related to closed institutions, submission of fraudulent documents and existence of files referred to prosecutions and investigations, etc.
- Actions should be taken to avoid delays and provide optimal service to the members.
- (g) A total amount of Rs. 10.99 million including Rs. 8.2 million which have been in the Investment Clearing Account since 2016, and Rs. 2.79 million in the asset disposal account which was received from the assets disposal in 2023, were presented as 'Other Payables' in the statement of financial position without being cleared.
- Actions will be taken to settle the respective balances during the year 2024.
- Actions should be taken to settle the outstanding balances.

### 3.3 Transactions of Contentious Nature

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The service providing institution for facilities management and service charges and internal cleaning of the Mehewara Piyesa building had submitted a bill amounting to Rs. 6.55 million for the month of October 2023 and the total amount had been borne entirely by the Fund without being distributed among all the institutions established in the building.	It appears to be a situation that has arisen due to the payments made utilizing the annual allocations allocated to the department.	Overhead expenses should be allocated according to the agreements made with each institution.

### 3.4 Procurement Management

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
60 computers, 60 cameras, and 60 printers totaling Rs.27.89 million had been purchased for the project of re-registering the members of the Fund. The "memory capacity" specification used when purchasing the first 30 computers out of the above 60 computers was modified when purchasing the last 30 computers and quotations had been called accordingly and it was confirmed through documents that the specification used for the second instance was adequate for the aforementioned project. Accordingly, since a unit was purchased for Rs. 335,328 in the first instance and for Rs. 141,400 in the second instance, resulted a loss of potential saving of approximately Rs. 193,928 per unit, which meant a total of Rs. 5.82 million in the first instance. Furthermore, although the project was planned to start on 1 June 2022, the expected results were not achieved from the expenditure incurred due to the fact that 51 computers, 53 cameras and 50 printers remained in the store without distributing even by 14 March 2024.	The specifications were prepared focusing on computers with the capacity to register new members through electronic means according to the amendments to the Act. Accordingly, the first 30 computers were purchased based on those specifications. Due to a policy decision taken by the government, the Electronic National Identity Card Project – e NIC project planned to be implemented, the Commissioner General of Labour decided that it was not necessary to obtain fingerprints separately, so the specifications required to obtain those fingerprints were removed and the specifications were prepared again for the computers.	Procurements should be planned optimally and funds should be utilized efficiently when expenses are incurred from the members' Fund.