

Employees' Provident Fund - 2025

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Employees' Provident Fund for the year ended 31 December 2025 comprising the statement of financial position as at 31 December 2025 and the statement of income and expenditure, statement of changes in equity of the members 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, Finance Act No. 38 of 1971 and the Employees' Provident Fund Act, No. 15 of 1958. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the fund as at 31 December 2025, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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 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 Sub 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:

- 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 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.

Audit scope 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 Accounts Receivable and Payable

1.5.1 Payable

Audit Observation	Management Comment	Recommendation
Owing to the fact that the liabilities of Rs.27.385 million, which were identified according to the Treasury computer records of the Department of Labour as at 31 December 2025, had not been identified in the final financial statements of the Employees' Provident Fund, the liabilities and expenses for the year under review had been understated by Rs. 27.385 million.	It is expected that the understatement of liabilities and expenses of the year under review by Rs.27.385 million will be corrected in the future financial statements.	Actions should be taken to account the unaccounted liabilities of the fund and to implement appropriate control mechanisms to prevent such unaccounted liabilities in the future.

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

Reference to Laws, Rules, Regulations, etc.	Non-Compliance	Management Comment	Recommendation
(a) Circulars of the Department of Labour			
(i) Department of Labour Circular No. 01/99 dated 11 February 1999	(a) Even though legal action should be taken against employers who do not remit the relevant funds even after the issuance of the final notification for the recovery of outstanding contributions and surcharges, legal action had not been taken so far to recover the outstanding funds of Rs. 238,766,949	These delays have occurred due to factors such as incorrect addresses provided, the need to amend the address and name of the institution, the database not being updated, difficulty in finding employers for filing lawsuits and corrections	Required legal actions should be taken to recover uncollected contributions and surcharges without delay and necessary control measures should be taken to prevent such delays from

	in 253 cases according to the Fund's monitoring database.	to notices due to various shortcomings.	occurring in the future.
	(b) Even though initial notices had been issued to recover outstanding contributions and surcharges after conducting inspections of institutions, final notices (red notices) had not been issued in relation to 67 cases, and Rs. 26,383,848 in outstanding contributions and surcharges remained to be recovered from those institutions.	Measures have been taken to send final notices to certain institutions while evidence is being prepared for other institutions since there is insufficient evidence.	The relevant evidence should be completed expeditiously and final notices should be issued to recover outstanding contributions and surcharges.
	(c) When it is revealed during investigations conducted by labour officers that employers have not paid contributions on behalf of their employees and though sufficient evidence should be collected at the time of the investigation to recover such contributions, such evidence had been collected only in respect of one employee in a hotel industry in the Colombo West area. Sufficient evidence had not been collected in respect of the other employees and outstanding contributions of Rs. 438,003,820 remained to be recovered.	The first and red notices have been sent and since the institutions have not yet made payments for them, legal action has been taken against the institution. A large amount of unpaid E.P.F. funds for the notices issued to this institution have already been recovered and legal action has also been taken for other notices that cannot be recovered.	The necessary evidence for the recovery of outstanding contributions should be fully collected at the time of investigation and actions should be taken to recover the relevant funds expeditiously.
(ii) Paragraph 1(IV) of the Department of Labour Circular No. 6/2000 dated	According to the Fund's monitoring data system, there were 41,207 active institutions in 06 District Labour Office areas. Although circulars had instructed that institutions that	A labour officer inspects 20 or more institutions per month and out of those institutions, 10 inactive institutions are selected	Institutions that have not been inspected for a long time should be inspected promptly and a

10 February 2000	had not been inspected for a long time should be selected for inspection, only 8,950 institutions had been inspected. Accordingly, 32,257 active institutions, or nearly 78 percent of the total number of active institutions, had not been inspected during the period from 2000 to 2025.	by the Assistant Labour Commissioner and given for inspection. Delays in inspecting these 10 establishments occur when court duties are assigned, inspections of additional institutions, inspections of institutions employing women at night, inspections of 05-day shifts, etc.	formal program should be introduced so that all institutions are inspected on a timely basis.
(iii) Department of Labour Circular No. 05/2017 dated 21 September 2017	Cases of non-payment of the relevant money were observed despite the concessions had been provided to the employers to pay the outstanding contributions and surcharges in installments, according to the visit inspection conducted by the Labour Officers. According to the sample checks, out of Rs. 376,695,619 due in respect of 83 concessions, Rs. 94,375,391 was still due as at 31 December 2025 and the necessary further actions had not been taken in accordance with the circular provisions to recover the said money.	Instructions have already been given to prioritize and pay special attention to institutions with missed installments and other omissions in conjunction with the data system.	Necessary actions should be taken to expeditiously recover uncollected contributions and surcharges and to prevent such situations from occurring in the future.
(b) Section 03 of the Employees' Provident Fund (Amendment) Act, No. 26 of 1981	Even though employers who do not pay contributions on time should be charged a surcharge for the delay, a sample check conducted on the Central Bank of Sri Lanka database on 19 June 2025 revealed that a surcharge of Rs. 33,076,906 had not been collected from 30 employers in	Instructions have been given to the relevant Assistant Commissioners of Labour to recover unpaid surcharges.	A formal follow-up system should be implemented to promptly collect the surcharges due and to prevent such surcharges from being levied in the future.

the Gampaha region for the year 2024.

(c)	Section 23(d) of the Employees' Provident Fund Act, No. 15 of 1958	Even though the benefits should be paid after making the necessary confirmation that the member is going abroad "with the intention of not returning to Sri Lanka", benefits totaling Rs. 18,855,603 had been paid in 6 cases without properly confirming that condition. Further, benefits totaling Rs. 13,463,896 had been paid to 4 beneficiaries without properly verifying the required immigrant visa copies when going abroad for permanent residence.	Officers did not have the necessary awareness and actions are currently being taken to properly examine the relevant documents.	Benefits should be paid only after the relevant legal requirements and documents have been properly verified, relevant guidelines should be updated and officials should be constantly informed and adequate control mechanisms should be implemented to prevent such errors.
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2. Financial Review

2.1 Financial Results

The operating result for the year under review amounted to a profit of Rs. 549,821 million and the corresponding profit in the preceding year amounted to Rs.511,063 million. Therefore, an improvement amounting to Rs.38,758 million of the operating result was observed. The reasons for the improvement are mainly due to the increase in the Fund's interest income and dividend income by Rs. 51,828 million and Rs. 1,108 million respectively compared to the preceding year. However, a loss of Rs.14,354 million had been recognized on fair value adjustment of financial instruments during the year under review.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	The fund had not received any income to date for the Rs. 500 million investment made in an airline in 2010 and the fund had lost Rs. 205.49 million due to the cancellation of the license of a finance company in which it had invested on 31 December 2021.	The airline is a state-owned company and has been operating on financial provisions provided through the General Treasury due to long-term losses and the Colombo Commercial High Court has ordered the company to be liquidated after revoking the company's license.	When making investments, the risks and rewards should be properly evaluated, the fund's money should be invested safely and effectively and

necessary measures should be taken to recover lost money.

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| (b) | <p>An aggregate of Rs. 101 million in unreconciled bank account balances dating back to 2001 in the Fund's bank reconciliation statements, had been stated as a liability in the statement of financial position until it was settled and an agreement had been entered into with a private entity on 09 January 2020 in respect of the settlement of this balance. Even though the final report was to be submitted within 08 weeks from the date of the agreement, the expected objectives of the relevant project had not been fully achieved even by the date of this report, despite the passage of several years since the agreement was entered into. Similarly, 50 percent of the contracted amount, i.e. Rs. 1.5 million, had been paid to the relevant entity as at 31 December 2020.</p> | <p>Owing to problems in the originally planned methodology, the objective could not be achieved within the expected time frame and a new approach was taken to obtain the relevant bank reports and internal data in a more independent manner. Currently, the institution, under our supervision, is carrying out relevant work to resolve the remaining balances.</p> | <p>Actions should be taken to implement a formal follow-up system to ensure timely completion of contracted tasks and settle any outstanding bank balances promptly.</p> |
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3.2 Operational Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	A sum of Rs. 8,048 million held in the Central Bank of Sri Lanka after recovery from employers through lawsuits, an amount of Rs. 220 million held in the General Deposit Account of the Department of Labour and Rs. 14,778 million in cash basis held in the "Current Year Contributions No. 01" account had not been credited to the relevant member accounts as at 31 December 2025. Further, there were Rs. 575 million in unsettled benefits and unclaimed benefits due to various reasons, Rs.	There are difficulties in crediting these balances to individual accounts due to various reasons such as contributions sent without "C" reports, as well as contributions sent with incomplete or inconsistent "C" reports. Measures have been taken such as informing employers about contribution detail reports with discrepancies in member names and numbers, collecting erroneous	Actions should be taken to identify outstanding balances in member accounts that have not been credited or settled, credit them promptly to the relevant member accounts and implement an effective follow-up system.

1,686 million in deficit/surplus contributions and Rs. 516 million in deficit/surplus benefit payments and the Committee on Public Accounts had also ordered in 2013, 2016 and 2017 to settle these balances expeditiously. Accordingly, it was observed that there were significant cash balances remaining un-credited and unsettled in member accounts for a long period of time.

“C” reports, collecting financial detail reports through online system and introducing automatic member account updating systems to resolve these balances.

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| (b) | <p>It was observed that there is no formal and up-to-date set of instructions regarding the methodology to be followed and the documents to be checked during the payment of benefits, as the internal instructions used in the payment of Employees' Provident Fund benefits have not been updated in accordance with current laws and regulations.</p> | <p>Attention has been paid to preparing the internal instructions used in the payment of benefits to suit them with current regulations.</p> | <p>Actions should be taken to prepare a formal and up-to-date set of instructions in accordance with current laws and regulations and inform the relevant officials and update it regularly as necessary.</p> |
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3.3 Defects in Contract Administration

Audit Observation	Management Comment	Recommendation
The consultancy services for the renovation of the 4th, 5th and 6th floors of the Labour Secretariat Building were estimated at Rs. 12.775 million and in accordance with Guideline 3.14.3 of the 2007 Consultancy Services Guidelines, the Department of Buildings had been selected to provide consultancy services without the formation of a consultancy services procurement committee and obtaining its consent and without a competitive procurement process.	Since the Department does not have sufficient staff with specialist knowledge to perform the relevant tasks, the above tasks have been carried out by the Department of Buildings which is a government department with staff with specialist skills. Estimates have been prepared for this task in the year 2021 and according to those estimates, the fee charged by the Department of Buildings for consultancy services is 5% of the total cost estimate. The value is about Rs. 9.5 million. Therefore, external agency had not been selected to obtain the consultancy service. I would like to inform that for future projects, we will proceed as per the consultancy guidelines 3.14.3.	When obtaining consultancy services, actions should be taken to follow the relevant consultancy guidelines and procurement procedures properly, plan the procurements systematically and utilize the funds effectively.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Management Comment	Recommendation
Even though it had been stated that the internal audit activities of the Employees' Provident Fund Department of the Central Bank of Sri Lanka are carried out by the Internal Audit Division of the Central Bank of Sri Lanka, it was not possible to verify that an adequate internal audit process was implemented in relation to that department, which manages a member fund of nearly Rs. 4.8 trillion as the internal audit reports for the year 2025 had not been submitted for audit. Further, it was observed that although the approved staff of the Internal Audit Division of the Department of Labour, which conducts the audit activities related to the administrative activities of the Fund, is 17 and due to the fact that the actual staff was limited to 6 as at 31 December 2025, there are challenges in adequately implementing the internal audit process related to the administrative activities of the Fund. Accordingly, it was observed that the internal audit process and internal control system of the Fund need to be further strengthened.	The total number of vacancies in the Department of Labour as at 31.12.2025 was very high. Sufficient staff had to be deployed in various offices and departments, which necessitated staff management in order to maintain the continuity of public services provided by the Department. As a result, there was no capacity to fill the vacancies in the Internal Audit Division. The Ministry of Provincial Councils and Local Government has been informed in writing regarding the relevant vacancies. 22 audit reports have been issued by the Internal Audit Division of the Department of Labour for the year 2025. The Internal Audit activities of the Employees Provident Fund Department of the Central Bank of Sri Lanka was scheduled to receive recommendations for 5 audits by the end of 2024 and these audits were under the supervision of the Internal Audit Department during the year 2025. In addition, 10 Audit Committee decisions/recommendations related to the functions of the E.P.F.Department were due to receive relevant recommendations by the end of 2024 and this was under monitoring by the Internal Audit Department during 2025.	A formal system should be established to ensure that the financial and operational activities of the Fund are subject to adequate internal audit.Actions should be taken to submit those internal audit reports for audit in a timely manner and to provide adequate human and other resources for the effective performance of internal audit functions related to the administrative activities of the Fund.