

Employees' Provident Fund – 2019

1.1 Qualified Opinion

The audit of the financial statements of the Employees' Provident Fund for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of income and expenditure and comprehensive income statement, receipts and payments account, statement of investment, statement of changes in equity and cash flow statement and notes to financial statements for the year then ended including a summary of significant accounting policies, 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 the Finance Act, No. 38 of 1971. My comments and observations which I consider should be reported 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 financial statements give a true and fair view of the financial position of the Employees' Provident Fund as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 determines 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 Audit of 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 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 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 audit 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 audit 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 Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to the relevant Standard	Comments of the Management	Recommendation
(a) In the correction of prior year errors in terms of paragraph 42 of Sri Lanka Accounting Standard 8, the comparative amounts in financial statements of prior years should be restated. However, contrary to that, prior year adjustments relating to Notional tax and withholding tax of Rs.170,391,828 had been adjusted to the income of the year under review.	This is not a correction of accounting errors but a change in the accounting estimates. It has been correctly accounted in terms of paragraphs 34 to 40 of Sri Lanka Accounting Standard 8.	Only a correction has been made during the year relating to Notional tax and withholding tax. As such, action should be taken to correct prior year errors in terms of Sri Lanka Accounting Standards.
(b) In terms of Sri Lanka Accounting Standard 16, the useful life of non-current assets should be reviewed annually. However, it had not been so reviewed. Fixed assets valued at Rs.76,656,104 and fully depreciated as at 31 December 2019 were still being used. Accordingly, the estimated	Not replied.	The useful life of non-current assets should be reviewed annually and adjustments on depreciation made in terms of the Standard.

error had not been revised in terms of Sri Lanka Accounting Standard 8.

1.5.2 Accounting Deficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
<p>(a) Cheques dishonoured, transactions not recorded in the bank statement, transactions not recorded in the cash book, direct debit/credit, and other unidentified balances totalling Rs.10,764 million and deposited but unrealized money orders, unrealized cheques and cheques issued but not presented totalling Rs.568 million were included in bank reconciliation statements within a period of 18 years, relating to 07 bank accounts maintained by the Fund. However, action had not been taken to make relevant adjustments by identifying the said items.</p>	<p>Settlements relating to unidentified transactions remaining in the bank reconciliation statements as at 31 December 2019, are being carried out and settlements of Rs.5,234 million have been carried out by now. The special programme thereon was commenced on 09.01.2020 with the participation of Ernst & Young (E&Y) selected in accordance with a tender procedure as per the approval of the Monetary Board for settlement of long term balances remaining in the bank reconciliation statements. As such, the unsettled long term balances remaining in the bank reconciliation statements, are settled prior to the financial year of 2021.</p>	<p>Action should be taken promptly to prepare an appropriate control system by identifying dishonoured cheques, transactions not recorded in the bank statement, transactions not recorded in the cash book, direct debit/credit and other unidentified balances etc. included in the bank reconciliation statements.</p>
<p>(b) According to the cash book and the bank reconciliation statement relating to a certain bank account, the balance as at 31 December 2019 was Rs.1,681,817,523. However, in the preparation of financial statements for the year 2019, the said balance had been indicated as Rs.1,659,712,768, thus observing a difference of Rs.22,104,755. Nevertheless, action had not been taken to identify the said difference and to make relevant adjustments.</p>	<p>The accounting software, “SAP” used so far in the preparation of the bank reconciliation statement relating to the said bank account, had become inactive due to a technical error during the first quarter of the year 2019. As such, this difference occurred due to an omission in recording data and action is being taken to adjust that difference in the year 2020.</p>	<p>Adequate attention should be paid and proper supervision should be carried out in including basic matters such as cash balances in the financial statements. Moreover, action should be taken to identify the difference and to make prompt adjustments in the accounts.</p>

1.5.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Management	Recommendation
(a) According to the financial statements, the balances of 7 accounts included in the members' fund totalled Rs.89,707 million. However, according to schedules submitted relating to those accounts, the said balances totalled Rs.64,291 million, thus observing a difference of Rs.25,416 million. Nevertheless, the reconciliation statements thereon had not been made available to Audit.	Data relating to individual members' accounts maintained in the AS/400 System is daily uploaded to the General Ledger and the General Ledger is updated through a data folder. A control account is maintained for individual accounts in the General Ledger. As transactions are recorded in the AS/400 System on cash basis and on accrual basis in the General Ledger, a natural difference exists in these two systems.	Action should be taken to prepare reconciliation statements in relation to differences.
(b) According to financial statements, the cost of 04 classes of fixed assets as at 31 December 2019 was Rs.918,035,505. However, the said cost was indicated as Rs.574,401,532 in the Schedule for Depreciation, thus observing a difference of Rs.343,633,973. Nevertheless, the reasons for these differences were not made available to Audit.	Not replied.	The Fund should take action to disclose the actual value of fixed assets in the financial statements.

1.5.4 Lack of Documentary Evidence for Audit

The following observations are made.

Item	Amount Rs.	Audit Evidence not made available	Comments of the Management	Recommendation
Purchases of 04 classes of fixed assets such as motor vehicles, furniture, computer equipment and plant and machinery relating to	308,804,794	Fixed Assets Registers and Schedules indicating fixed assets separately	Not replied.	Adequate evidence should be maintained on confirmation of balances included in the financial statements.

the period from the year 2009 up to the year 2013

2. Financial Review

2.1 Financial Results

The operations of the year under review resulted in a profit of Rs.222,776 million as compared with the corresponding profit of Rs.190,617 million for the preceding year, thus observing an improvement of Rs.32,159 million in the financial result.

The interest ratio paid in the year 2012 relating to contributions of members by a percentage of 11.5 per cent had decreased up to 10.5 per cent by the year 2014. The said ratio had been continuously maintained from the year 2014 up to the year 2017 and in the year 2019 it had decreased up to 9.25 per cent.

3. Operating Review

3.1 Identified Losses

Audit Observation	Comments of the Management	Recommendation
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<p>It was observed at the physical inspection carried out in the year 2019 relating to kiosk machines installed under phase 2 of the Project of Installation of Kiosk machines in 30 District Labour Offices located throughout Sri Lanka for members to check their account balance, that 27 kiosk machines had been inoperative and that 5 of them had been inoperative from the beginning of installation itself due to various reasons. Even though these machines had been repaired several times by the institution which installed them, they had frequently become inoperative. As such, the members could not check their balances. This project had been a complete failure due to reasons such as purchase without proper evaluation process, non-provision of a user manual and a proper training on the function of the machine, failure in continuous evaluation of progress, non-vesting of the custody and responsibility of the machine with a proper authority, non-installation in correct places (non-consideration of re-</p>	<p>At the inspection carried out on 31 December 2018, 20 machines were in operative condition. As a period over 05 years had elapsed after commencement of operating most of the machines, it is mentioned that action should be taken to review the useful life of the said machines and to make adjustments for depreciation.</p>	<p>It is the responsibility of the fund to act efficiently, effectively and economically in incurring expenditure through the members' fund.</p>

registered number of members). Moreover, the expenditure incurred for the project had been a loss to the Fund due to the unusable condition of the machine even before the lapse of 5 years after the date of installation.

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Sixty four instances had been identified in which benefits had been claimed by bogus persons appearing as members. A sum of Rs.52,316,484 relating to 61 of those instances had been paid from 04 November 2004 to 20 February 2020 so as to be charged on the Fund, and a sum of Rs.3,393,727 had been further payable relating to 3 instances. The Fund had failed to hold a formal internal inquiry on the said instances and to take legal action against internal officers if matters were revealed on their misconduct.</p>	<p>Information on payment of fraudulent benefits is revealed only in the event of the actual member's application for benefits and a considerable period had elapsed after making relevant payments. As such, it is not practical to hold an internal inquiry at this point. However, arrangements have been made to hold an internal inquiry relating to fraudulent payments at the instance of detecting them, hereafter.</p>	<p>Action should be taken to hold formal internal inquiries relating to fraudulent payments and to reveal acts of misconduct of internal officers, if any.</p>
<p>(b) The facility of the Online Balance Inquiry, commenced by the Central Bank of Sri Lanka since the year 2008 had not been properly publicized. As such, the said system had not been popular among the members. Moreover, even most of the kiosk machines installed by the Department of Labour for members to ascertain their account balances, had been inoperative. As such, the facility of ascertaining the account balance could not be obtained by the members as expected. Accordingly, it was observed that the Employees' Provident Fund consisting of about 2.6 million members, had failed to establish a fast and convenient system for its active members to ascertain their account balances.</p>	<p>The account balances could be currently ascertained by methods such as applying by post and electronic mail, enquiries made at the Central Bank of Sri Lanka, registering in the Online Balance Inquiry service, making enquiries through short message system on mobile phones. Projects such as crediting funds to individual members' accounts and sending short messages and improving the Departmental web site for the Online Balance Inquiry service, are being currently implemented.</p>	<p>Action should be taken to establish a fast and convenient system for the members to ascertain their account balances.</p>

3.3 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Action had not been taken to credit to each member's account, the sum of Rs.10,711 million of the Commissioner of Labour Account included in the member Balance of the Fund as at 31 December 2019 recovered by filing a lawsuit against employers and the sum of Rs.398 million retained in a general deposit account after being recovered by filing such lawsuits until being settled, to each members' accounts. Moreover, action had not been taken to identify relevant members and to settle a balance of Rs.30,435 million elapsed for one year as at 31 December 2019 in the account named, "Current Year Contribution - No.01" maintained in the names of the employers. Further, a sum of Rs.860 million as retained benefits and unclaimed benefits, a sum of Rs.1,843 million as UP/OP contributions and a sum of Rs.784 million as UP/OP refunds had been indicated under the members' fund as at 31 December 2019. However, action had not been taken to identify and settle those balances.	The relevant balances could not be settled due to reasons such as shortcomings in "C" Forms, errors in details of bank accounts of members, non-identification of the case number. UP/OP contributions can be settled after obtaining accurate information relating to those accounts.	The fund should take action to prepare an efficient system to settle contributions without delay.

3.4 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
Twelve Quick Cam cameras purchased in the year 2017, 50 Quick Cam cameras purchased in the year 2019 by spending a sum of Rs.1,725,375 and 24 Laptop computers purchased in the year 2018 by spending a sum of Rs.3,261,600 for the Photograph and Finger Print Project implemented by the Department of Labour for verifying the identity of members had remained idle by the end of the year under review without being distributed.	When Quick Cam cameras currently installed in regional offices become inoperative, 5 cameras are held in reserve for replacement and 7 more cameras remain in stock. As only Laptop computers and only Quick Cam cameras were purchased for the project in the years 2018 and 2019 respectively, those accessories could not be arranged in sets.	Assets should be purchased after identifying proper requirements and action should be taken to utilize them effectively.

