

Sri Lanka Social Security Board - 2019

1.1 Opinion

The audit of the financial statements of the Sri Lanka Social Security Board for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in equity 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 (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 appear in this report.

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

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). 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 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 Board'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 Board or to cease operations, or has no realistic alternative but to do so.

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

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Board 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 Institution.

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 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 Board'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 Board'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 Institute 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 Board , and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board 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 Internal Control over the Preparation of Financial Statements

The Board is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Reference to Laws, Rules, and Regulations, etc.	Comment of the Management	Recommendation
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(a) The Section 15(2) of the Social Security Board Act, No. 17 of 1996 states : where any Contributor has forfeited the benefits under the policy issued to him, the Board shall	As the computer software used to store information of the Contributors had not functioned properly, accurate information on the inactive Contributors could not be	As it is the main function of the Board to maintain the said Benefit Scheme, action should be taken immediately to

issue such Contributor a notice to that effect. The Board had enrolled 750,021 Contributors for the Pension and Social Security Benefit Scheme up to 31 December 2019, and of them, 288,234 Contributors had been identified as being inactive as at 31 December 2014. However, as the computer software had not functioned properly, the number of Contributors who had become inactive after 01 January 2015 was not identified. As such, the Contributors who had lost benefits after that date, could not be notified in that connection.

obtained, thus giving rise to this issue.

maintain the database up-to-date.

- (b) According to Section 6 a(1) of the Social Security Board (Amendment) Act, No. 33 of 1999, The Minister shall appoint a Technical Advisory Committee consisting of not more than nine persons, from among persons who, have had experience, or shown capacity, in the fields of social security, social welfare, insurance, actuarial evaluation, administration, finance or management. However, such a Committee did not remain functional after May 2018.
- It is scheduled to appoint a Technical Advisory Committee covering the fields stated in the Act. .
- Action should be taken immediately to appoint the Technical Advisory Committee to fulfil the objectives of the Board.

1.5.3 Accounts Receivable

Audit Observation	Comment of the Management	Recommendation
A sum of Rs. 1,335,805 remained recoverable as at 31 December of the year under review from 48 officers who had left the	Of the balance totaling Rs. 441,146 that had continued to exist over a period of 06 years, a sum of Rs. 176,004 has been recovered from 06 officers thus far. It has been informed that reminders have	Action should be taken immediately to recover the balances receivable to the Board.

service. The value of been sent to the relevant officers for balances included therein recovery of the balance amount. whilst continuing to exist over a period of 06 years, totalled Rs. 441,146.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a deficit of Rs. 6,647,530 as compared with the corresponding deficit of Rs. 3,126,602 for the preceding year, thus observing a deterioration of Rs. 3,520,928 in the financial result. The increase in the expenditure incurred on salaries and allowances for the year had mainly attributed to that deterioration.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
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(a) It had been planned to directly enrol 50,000 Contributors for the 02 Social Security Benefit Schemes named, “ <i>Surekuma</i> ” and “ <i>Arakshawa</i> ” during the year under review from the 25 districts. However, there had only been 37,279 enrolees indicating a decrease of 53 per cent as compared with the number of enrolees for the preceding year being 83,346. As for the year under review, the enrolments from 03 districts remained lower than 100 whereas the number of enrolments from 08 districts were less than 500.	Owing to sheer dedication of the District Coordinating Officers, action was taken to enrol 38,543 Contributors within the year 2019 with the assistance of other public officers except the Grama Niladharis. This is a situation that can not be contained by the Board directly.	A proper procedure should be in place to enrol the Contributors.
(b) Assistance of the Grama Niladharis had been sought by the Board in the preceding years for the enrolment procedure. Due to failure in obtaining their assistance in	With the discontinuation of the service provided by the network of Government officers, an independent marketing network had been established subject to paying	A proper procedure should be in place to enrol the Contributors.

the year under review, 72 officers had been recruited thereby establishing a marketing network, and an overall expense of Rs. 3,645,670 had been incurred in that connection. The members of the said marketing network had started enrolling Contributors from the month of May, but those officers too had left the project from October 2019. As such, a procedure for enrolling Contributors had not been imposed by 31 December 2019.

commissions based on the number of transactions. The said marketing network functioned under direct supervision and direction of a member of the Board of Directors. As the Head of Marketing and Provincial Heads had failed to fulfil the expected progress, they left the service in October 2019 without informing the Board. Hence, the agreement was terminated.

- (c) The Ministry of Cultural Affairs had given a sum of Rs. 94,000,000 to the Board as at 31 December 2019 in regard of the pension scheme for artists implemented by the Board in conjunction with the Ministry of Cultural Affairs, and 165 Contributors had enrolled for the said pension scheme during the period 2017- January 2020. However, as of August 2020, there were only 71 active Contributors.
- Reminders on instalments had continuously been sent to the artists enrolled for the pension scheme implemented in conjunction with the Department of Cultural Affairs.
- The Board should act in accordance with the agreement entered into with the Ministry of Cultural Affairs.
- (d) In order to enrol the Sri Lankan labourers employed in South Korea for the Benefit Scheme, the Board had entered into an agreement with the National Pension Service of South Korea on 18 June of the year under review. Although 6 activities had been included in the said agreement, the preliminary requirement of paying pensions to the Sri Lankan labourers in South Korea had
- The Board is taking measures to devise a procedure for providing pensions for the foreign employees in other countries including Korea. The purpose of this agreement is to provide training opportunities for the staff rather than paying pensions to the Sri Lankan labourers in Korea.
- It had been stated in the Paper, No. 2017/232 of the Board of Directors dated 18 September 2017 that the said agreement had been entered into for implementing a Pension and Social Security Benefit Scheme for the Sri Lankan labourers employed in South Korea. As such, it is necessary to adhere to

not been included therein. Moreover, a period of one year had elapsed as of August 2020 since the date of signing the agreement, but no action had been taken to execute the activities thereof.

the main purpose of the agreement.

3.2 Underutilization of Funds

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
(a) A supplier had been selected by the Board in the year 2018 for purchasing an Information System to manage the Pension and Social Security Benefit Scheme thus entering into agreement so that the intended task would be completed by November 2019. Nevertheless, only one of the 5 stages relating to the work had been completed by the end of the year under review. Furthermore, the Treasury provision amounting to Rs. 12,511,000 that had been retained for 4 years in respect of that work had remained underutilized even in the year under review as well.	According to the 3 rd timeframe finally approved, it had been scheduled that the software be developed by 01 November 2019 and handed over to the Board. However, it was informed that the institution, Epic Lanka was unable to develop and hand over the software to us by 31 December 2019.	Action should be taken immediately to maintain the Information System of the Board in an up-to-date manner thus minimising the number of Contributors becoming inactive.
(b) A contract had been awarded in July 2019 without obtaining a technical report for constructing a fifth floor to be used as an auditorium for the building in which the Sri Lanka Social Security Board had been maintained. Meanwhile, a technical report was provided by the University of Moratuwa in November 2019 stating that the building was not strong enough to bear a fifth floor; hence, the contract was	A sum of Rs. 540,000 had been granted by the Ministry of Social Security in order to construct an auditorium. That sum had been brought to accounts as being spent on language training and other expenses under recurrent expenditure as at 2019.12.31. it has been informed that action would be taken to correct that expense as a capital expenditure for the year 2020.	Essential instructions should be followed on technical matters.

cancelled. However, the Board had spent a sum of Rs. 731,244 in that connection whilst a sum of Rs. 540,000 granted by the Ministry of Social Security in that regard had been spent under academic expenses. All those expenses became fruitless.

3.3 Underutilization of Assets

Audit Observation	Comment of the Management	Recommendation
A number of 4762 CDs worth Rs. 603,675 containing 02 short films made to promote the Pension and Social Security Benefit Scheme, had remained at the stores over a period of 06 years without being issued.	It has been informed that action would be taken to write off once approval of the Treasury is obtained.	Promotional activities should be done by drawing attention on the necessity of such activities.

3.4 Uneconomic Transactions

Audit Observation	Comment of the Management	Recommendation
Without allocating funds and following the procurement procedure, the Board had purchased a building for maintaining its Head Office at a sum of Rs. 195,000,000 from the pension fund by exceeding the Government's assess being Rs. 165,000,000. However, action had not been taken in accordance with instructions given by the Committee on Public Enterprises to assess and account the current value of the building. As of the year under review, a period of 05 years had elapsed since the purchase of the building , but a formal inquiry had	A revaluation was done in that connection in the year 2020. It has been informed that action would be taken to show in the closing accounts relating to the year 2020.	A formal inquiry should be conducted on the purchase of the building, and in case of an overpayment, action should be taken to identify the persons responsible thereby recovering the overpayment. The current value should be assessed and brought to accounts in accordance with instructions given by the Committee on Public Enterprises.

not been conducted in that connection thus failing to identify the persons responsible for making the overpayment.

3.6 Human Resources Management

Audit Observation	Comment of the Management	Recommendation
It was observed in audit that the existence of 25 vacancies including 18 posts of Coordinating Officers as at 31 December of the year under review, had caused an unfavorable impact on the affairs of the Social Security Board including the enrollment of Contributors.	The posts of Coordinating Officer were remaining vacant over an extensive period. As such, action is being taken to recruit a retired officer of the Sri Lanka Administrative Service subject to the approval of the Board of Directors.	Officers should immediately be recruited to the posts necessary to ensure smooth functioning of the Board.