Public Service Provident Fund - 2025

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1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Public Service Provident Fund for the year ended 31 December 2025 comprising the statement of financial positions as at 31 December 2025 and the statement of financial performance, statement of changes in equity and the statement of cash flows 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 Section 24(1) of the Public Service Provident Fund Ordinance No.18 of 1942 (Authority 621). My comments and observations which I consider should be report to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Fund. Because of the significance of the matters described in basis for Disclaimer of Opinion of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

As described in paragraph 1.5 of this report, I was unable to confirm or verify the material items included in the statement of financial positions, statement of financial performance, statement of changes in equity and the cash flows statement through alternative methods.

Consequently, I was unable to determine whether any adjustments were necessary regarding the recorded or unrecorded values or transactions of the items or values used to prepare the statement of financial positions, statement of financial performance, statement of changes in equity and the cash flows statement.

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 Fund' stability 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 responsibility is to conduct an audit of the Fund's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section, I was unable to obtain sufficient appropriate audit evidences to provide a basis for an audit opinion on these financial statements.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
Although the Fund is required to maintain accounts on an accrual basis in accordance with Paragraph 7 of Sri Lanka Public Sector Accounting Standard 01, interest income earned on Treasury bonds for the year under review was not recognized or recorded on an accrual basis.	That interest on Treasury bonds was recognized on a cash basis.	In accordance with the standard, interest income earned on Treasury bonds but not yet received by the reporting date should be calculated on an accrual basis, recognized as income receivable, and recorded in the accounts.

1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
Since interest income for the year under review and accrued interest income of the investments made under Repurchase Agreements (REPO) were overvalued by Rs.1,420,181, the interest income for the year had been overstated by the same amount.	Noted for correction during the preparation of the 2026 accounts.	Interest income on investments should be accurately calculated in accordance with the terms of the agreements, and necessary adjustments sholud be made prior to the preparation of financial statements.

1.5.3 Documentary Evidences not made available for Audit

	Item available	Amount Rs.	Evidence not available	Management Comment	Recommendation
(a)	It was not possible to verify the accuracy of the Government contribution account balance reported in the financial statements, as detailed individual schedules specifying each contributor and institution had not been submitted.	227.6	Individual Balance Schedules	Under the new system launched at the beginning of 2025, these balances can henceforth be identified by each institution and by officer and, it is expected that this pre-existing outstanding balance will gradually decrease as payments are made to the officers.	Detailed schedules of individual balances should be prepared and maintained to verify the accuracy and completeness of account balances.
(b)	It was not possible to verify the accuracy of the balances in the compulsory contribution account and the government contribution account, as schedules of individual balances segregated by contributor had not been submitted.	43,087.5 66,095.1	Individual Balance Schedules	Under the new system launched at the beginning of 2025, these balances can henceforth be identified by each institution and by officer and, it is expected that this pre-existing outstanding balance will gradually decrease as payments are made to the officers.	Schedules should be prepared and maintained in a manner that enables the verification of the accuracy and completeness of the account balances for compulsory contributions and government contributions.
(c)	It was not possible to verify the accuracy of the voluntary contribution account balance because the schedules containing details of the contributors were not submitted for audit.	67.0	Schedules with information about contributors	Under the new system launched at the beginning of 2025, these balances can henceforth be identified by each institution and by officer and, it is expected that this pre-existing outstanding balance will gradually decrease as payments are made to the officers.	To verify the accuracy and completeness of the voluntary contribution account balance, detailed schedules containing contributors' information should be prepared, maintained, and submitted for audit.

(d)	An age analysis regarding the adjustment account balance of Rs.5.6 million, carried forward since 1989, had not been submitted for audit.	5.6	Age analysis	That it was unable to conduct a age analysis.	Accounting records for carried-forward reconciliation account balances should be maintained in a manner that allows for identification by institutional and time period level and, an age analysis should be prepared and submitted and, action should be taken to promptly settle long-outstanding balances.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Management Comment	Recommendation
Section 25 of the Public Service Provident Fund Act of 1942	Although the Director of Pensions was required to inform each contributor of the total amount credited to their name in the fund as of the end of each financial year, methodology had not been established to fulfill this requirement.	No answers have been provided.	In accordance with the provisions of the Act, a suitable information system and methodology must be established and implemented to accurately identify and annually notify each contributor of their account balance.

2. Financial Review

2.1 Financial Result

The financial result for the year under review was a surplus of Rs.12,576.55 million compared to a surplus of Rs.13,278.43 million in the previous year. Consequently, a deterioration in the financial result was due to a reduction of Rs.701.88 million in interest income from investments.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
The rate for distributing the total interest income of Rs.12,576,550,809 among contributors was determined based on the average value of initial monthly allocations and it was observed that this methodology did not ensure the full distribution of the earned interest income among the contributors. Accordingly, interest income amounting to Rs.3,679,090,761 during the year under review was transferred to the general reserve instead of being distributed among the contributors.	No answers have been provided.	An approved, formal mechanism should be introduced and implemented to ensure the fair, transparent, and full distribution of the interest income earned by the fund among the contributors.