PROPOSAL TO CONDUCT A FORENSIC AUDIT OF THE EPF ONCE IN 5 YEARS

THE PROPOSAL

Verité Research recommends that legislative, regulatory or policy provisions be set in place for a forensic audit of the Employees' Provident Fund (EPF) to be conducted once every five years. Regular audits will strengthen accountability, improve transparency in the management of workers' retirement savings, and act as a deterrent against misuse. By institutionalising this process, irregularities can be detected, deterred and corrective measures taken, safeguarding the financial security of EPF members and restoring confidence in the Fund's governance.

SHORT ABSTRACT

The EPF, Sri Lanka's largest retirement savings fund with LKR 4.38 trillion in assets by end-2024, is a mandatory defined-contribution scheme for private and certain government sector employees without pensions. Despite its importance, the fund has faced repeated allegations of misuse. The last forensic audits done in 2019 revealed significant losses but were limited in scope, covering bond transactions from 2002–2015 and equity transactions from 1998–2017. Institutionalising a regular forensic audit (at least once in five years) will safeguard workers' savings and ensure accountability.

Objective of the Proposal

- ☐ Economic Growth
- ☒ Governance
- ☒ Justice and Rights
- ☒ Social Welfare
- ☐ Other: ....

Implementing Agency:	Ministry of Labour, Ministry of Finance (CBSL)
Primary Beneficiaries:	EPF members, employers, and future retirees
Cost Estimate (if available):	Approx LKR 200 million
Policy Type:	Legislative and regulatory reform

HOW IT ADVANCES THE OBJECTIVES

1. Governance: Establishes regular, independent scrutiny of the EPF, closing long-standing oversight gaps, ensuring compliance with the law, and enhancing accountability in fund management.

2. Social Welfare: Protects workers' retirement savings by providing accurate, independently verified assessments of the Fund's performance, enabling members to hold managers accountable and ensuring the long-term value of their contributions.

3. Justice and Rights: Upholds members' rights to transparency by guaranteeing access to reliable information on how their savings are managed, reducing opportunities for misuse, and promoting fairness.

CASE FOR THE PROPOSAL

The Employees' Provident Fund (EPF) is Sri Lanka's largest financial institution, holding assets of LKR 4.38 trillion by the end of 2024—equivalent to 15% of GDP and larger than any domestic bank. It is a mandatory defined-contribution scheme in which both employees and employers contribute regularly into individual accounts, together totalling 20% of gross income. Workers are therefore required to set aside a significant portion of their earnings, locked away until retirement. Unlike a pension scheme, the value of members' savings depends entirely on investment performance.

However, the EPF has been repeatedly mired in allegations of mismanagement, resulting in poorer returns to the fund and a general mistrust in the entity among the members. A study by Verité Research showed that the Fund's equity investments in 2009–2010 delivered returns of less than 5%, while the broader All Share Price Index (ASPI) rose nearly 100% over the same period.⍰ Forensic audits and parliamentary inquiries later revealed serious irregularities, including "pump-and-dump" schemes in which low-value stocks were artificially inflated and offloaded onto the EPF, causing significant losses. Another major scandal—the 2015 "bond scam"—involved irregular activities within the Central Bank's Public Debt Department, which enabled private entities to secure windfall profits by selling overpriced bonds to the EPF.

In response to concerns over mismanagement, a forensic audit of the Central Bank was conducted in 2019. It revealed losses of approximately LKR 9.8 billion from bond investments (2002–2015) and LKR 9.9 billion from equity impairments (1998–2017).[i] However, the scope of this audit was limited to these periods, leaving the possibility of further unreported losses beyond 2015 for bond market investments.

Currently, the EPF lacks a dedicated regulator. Oversight is limited to the National Audit Office's external review of annual financial statements, which is not sufficient to detect all irregularities or misconduct. Until a specialised regulator is established, regular forensic audits by independent firms provide the strongest oversight. Repeating such audits every five years will ensure continuous oversight and strengthen both accountability and transparency.

Overall, this proposal helps to strengthen transparency, ensure accountability, and hold authorities accountable for responsible management of workers' retirement savings.

HOW DOES IT HELP THE COUNTRY

1. **Strengthens Governance and Accountability:** Regular forensic audits close persistent gaps in oversight, reducing opportunities for misuse and corruption. This aligns EPF management with good governance practices and restores public trust in financial institutions.
2. **Safeguards Workers' Retirement Security:** Independent, recurring audits ensure that the savings of over two million workers are managed responsibly. This protects retirement income, prevents mismanagement, and strengthens long-term financial security for households.

PUBLISHED SUPPORTING ANALYSIS

Verité Research *Employees' Provident Fund Special Report* (March 2012) at https://www.veriteresearch.org/wp-content/uploads/2019/06/Employees-Provident-Fund-Special-Report.pdf [last accessed 31 March 2025]

Verité Research *Forensic Audit of Central Bank 2019: Assessment of Losses to the EPF* (February 2025) at https://www.veriteresearch.org/wp-content/uploads/2025/03/03032025_Forensic-Audit-of-Central-Bank-2019-Assesment-of-loses-to-EPF.pdf [last accessed 31 March 2025]

BDO *Final report | RFP2 | Forensic audit/investigation on primary and secondary market transactions of Employees Provident Fund involving treasury bonds issued/transacted during the period from 1 January 2002 to 28 February 2015*, The Central Bank of Sri Lanka (2019) at https://archive.veriteresearch.org/handle/456/7109 [last accessed 20 January 2025]

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REFERENCES AND END NOTES

[i] Verité Research 'Forensic Audit of Central Bank 2019: Assessment of Losses to the EPF (February 2025) at https://www.veriteresearch.org/wp-content/uploads/2025/03/03032025_Forensic-Audit-of-Central-Bank-2019-Assesment-of-loses-to-EPF.pdf [last accessed 27 August 2025]