

Public Service Mutual Provident Association – 2015

The audit of financial statements of The Public Service Mutual Provident Association for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Public Service Mutual Provident Association Ordinance (Chapter 283), and Section 18 (2) of the Public Service Mutual Provident Association Act, No. 18 of 1983. My comments and observations on the financial statements of the Association appear in this report.

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements 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 Association's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2:2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except of the matters described in paragraph 2:2 of this report the financial statements give a true and fair view of the financial position of the Public Service Mutual Provident Association as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

A sum of Rs. 1,771,823 received by the Association as miscellaneous income and other receipts as at 31 December 2015, had not been identified and accounted. Instead, it had been shown as non-current liabilities.

2.2.2 Suspense Accounts

Action had not been taken to rectify the account by settling the balance of the suspense account amounting to Rs. 1,713,575 that had been brought forward as a current asset over a long period of time. As the said balance had increased by Rs. 972,728 during the year under review, the accuracy of the accounts of the Association could not be verified.

2.3 Non-compliance with Laws, Rules, Regulations, and Management Decisions

The following instances of non-compliances with Laws, Rules, Regulations and Management Decisions were observed.

Reference to Laws, Rules, Regulations and Management Decisions

Non-compliances

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| (a.) Sections 16(1), (2) and (3) of the Constitution of the Public Service Mutual Provident Association, No. 05 of 1891 | Rules in respect of the motorcycle loan of Rs. 850,000 introduced in the year under review, and the loan of Rs. 300,000 for post graduate studies together with the rules relating to the increase of the limit of another 6 categories of loans, had not been published in the Gazette. |
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(b.) Revised Constitution of the Public Service Mutual Provident Association.

- (i) Section 10(1) Although the death donation should be paid within 2 months of the notice of death, according to the statement of deaths as at 31 December 2015 presented to audit, the death donations payable to 30 members, whose deaths had occurred in the previous year , and the preceding years amounting to Rs.1,425,000 , had not been paid.
- (i) Sections 5(I) and 5(ii) of Chapter II Despite the possibility that the Board of Control could amend the interest rates to be in line with the Central Bank, interests on the property loans had been charged without considering the interest rate of the Central Bank.
- (ii) Section 7(b) (I) of Chapter I Action that should have been taken against the members with more than 6 installments in arrears, had not been taken as per the Constitution.

3. Financial Review

3.1 Financial Result

- (a.) According to the financial statements presented, the financial result of the Association for the year ended 31 December 2015 had been a surplus of Rs.39,486,478 as compared with the surplus of Rs.35, 887,374 for the preceding year. An improvement of Rs. 3,599,104 in the financial result was observed as compared with the preceding year. The increase in the interest income by a sum of Rs.4,023,416 despite the increase in the employee remuneration by a sum of Rs.2,109,136, and the decrease in the other expenses by a sum of Rs. 1,830,938 had mainly attributed to the improvement of the financial result.
- (b.) A continuous improvement in the financial result had been achieved in analyzing the financial results for the year under review and 04 preceding years. Considering the employee remunerations, income taxes and depreciation, the contribution of the year 2011 amounting to Rs. 49,811,927, had improved up to Rs. 64,515,298, by 30 per cent in the year under review.

4. Operating Review

4.1 Performance

- (a.) **Contribution of the Management Committees to the good governance of the Association, and the participation of the members in the meetings of the Management Committees**

Of the 30 monthly and special Management Committee meetings held, one of the two representatives of the Treasury, had not attended 09 meetings, whereas the other representative had not attended 16 meetings. Some of the members elected for the monthly Management Committees, additional Management Committees and sub-committees, had not attended those committees adequately. In this context, the Association had not received an adequate contribution from certain committee members in taking decisions for the betterment of the Association.

(b.) Membership

The number of members as at 31 December 2011 had increased from 10,982 to 11,887 by 31 December 2015. From the year 2011 to 2015, only 2,356 new members had been enrolled. Even though there was a considerable increase in the new entrants to the public service, an effective methodology had not been followed to improve the membership of the Association.

(c.) Attendance of Members at the Annual General Meetings

Only about 13 per cent of the members had attended the Annual General Meetings during the past 5 years. Therefore, the election of members for the Board of Control voting and the adoption of proposals placed before the Annual General Meetings had not taken place with the participation of a majority of the membership. Although it is the responsibility of the Board of Control to take decisions on the betterment of the Association, attention had not been drawn on the fact that the Board of Control should be elected with the participation of a majority.

(d.) Failure to Conduct a Survey on the Members

Despite the possibility that non-settled balances brought forward over a long period of time relating to the members (death donation eligibility, loans, contributions) could have been settled and existence of the members (demise, changes of residence, proceeding abroad, and cancellation of membership) could have been collected, by conducting a survey on the bio-data of the members, the Association had not considered in conducting such a survey.

4.2 Deficiencies in the Management of Finance, Loans, and Savings

The following observations are made.

- (a.) By the end of the year under review, there had been 42 members who defaulted on loan interests and contributions, 112 members who defaulted only on the contributions and 39 members to whom the donations had not been granted to.
- (b.) In terms of Rule, No. 7 b (a) of the Constitution of the Association, the membership becomes cancelled when an amount receivable to the Association is not paid within a period of 6 months since the due date. Sums of Rs. 105,270 and Rs. 279,065 remained recoverable as loan interests and contributions and contributions in arrears

respectively from 22 persons whose memberships had been cancelled in such a manner. Recovery of those monies remained doubtful.

- (c.) According to the information system, there had been a total of Rs. 722,906 including outstanding loan balances belonging to 10 deceased members, and a loan balance of Rs. 458,357 that remained due with respect to active members. Action had not been taken to recover those loan balances or to take some other suitable action.

4.3 Irregular Transactions

A contract for the construction of a holiday bungalow in Katukeliyawa, Anuradhapura, had been awarded at a value of Rs. 27,660,111. According to the information made available to audit, the value of the additional works amounted to Rs. 12,747,735, equivalent to 46 per cent of the initial contract value. The other construction works that had not belonged to the initial construction, had been assigned to the same contractor under “additional works” in order to be carried out at his rates. As a suitable contractor with minimum rates had not been selected by following the procurement procedure, it had become unfavourable for the Association.

4.4 Underutilization of Funds

There had been bank balances of more than Rs. 10 million within the 02 current accounts of the Association throughout the period from January to December of the year under review. As the balances had not been properly invested, the Association had been deprived of a possible additional income.

4.5 Idle and Underutilized Assets

The following observations are made.

- (a.) An area of 3300 square feet at the ground floor of the Association had not been utilized over a period of 08 months, and had remained idle. Action had not been taken to lease out the area to other party.
- (b.) A part of the area at the ground floor had been leased out to an external party by the Association in 2013. Although the said party had left the building 02 years and 03 months ago, action had not been taken to recover the lease rent in arrear amounting to Rs. 127,000.

5. Accountability and Good Governance

5.1 Action Plan

An Action Plan had not been prepared by the Association for the year under review in terms of Public Finance Circular, No. 01/2014 dated 17 February 2014.

5.2 Budgetary Control

Significant variances ranging from 10 to 130 per cent in 43 items were observed between the budget and actuals, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the attention of the Joint Secretary and the Treasurer of the Association from time to time. Special attention is needed in respect of the following areas of control.

Area of Control	Weakness in Brief
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(a) Computer System	Inaccuracies in the computer information system Weaknesses in reporting the members' loans and deposits and Non-computerization of information relating to the members
(b) Method of Death Donations	Delay in the payment of death donations
(c) Members' Loans	Failure to achieve the expected welfare as fixed deposits had been given prominence instead of improving the loans being granted to the members of the Association.