

## **Public Service Mutual Provident Association – 2018**

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### **1.1 Unqualified Opinion**

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The audit of the financial statements of the Public Service Mutual Provident Association for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of income and 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 (3) 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 Public Service Mutual Provident Association Ordinance (Cap 283) and Section 18 (2) of the Public Service Mutual Provident Association Act, No. 18 of 1983. Comments and observations which I consider should be submitted to Parliament appear in this report.

In my opinion, financial position of the Public Service Mutual Provident Association as at 31 December 2018, and of its financial performance and its cash flows for the year then ended give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Opinion**

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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 adverse opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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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 Association's ability to continue as a going concern, using the going concern basis of accounting unless management either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so and disclosing matters related to going concern.

The related parties are responsible for overseeing the Fund's financial reporting process.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Association is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable the preparation of the annual and periodic financial statements of the Fund.

## 1.4 Scope of Audit

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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, 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 Association'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 Association'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 Association 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 Receivable and Payable Accounts**

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### **1.5.1 Receivable Accounts**

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The following observations are made.

<u><b>Audit Observation</b></u>	<u><b>Comments of the Management</b></u>	<u><b>Recommendation</b></u>
(a) Loan balances totalling Rs. 15,100,496, comprised of the balance of Rs. 1,060,279, shown as debtors in the statement of financial position and which had been in arrears due to the death of member or due to other reasons and comprised of the loan balance of Rs. 14,040,217 included in loan accounts of 348 members that were in arrears had not been settled for more than one year. It was observed that Rs. 892,064 out of those balances remained unsettled for more than five years. Further, it was revealed at the audit test check that the balance of the loan that had to be further recovered only from 18 persons who had been paid the death donation was Rs. 1,888,461	41 out of 348 members are employed in diplomatic missions and therefore, money is charged annually or half yearly and action is being taken to recover the other loan balances in arrears by making the members as well as the relevant Departments aware of the loan arrears through sending letters and giving telephone calls.	Systematic steps should be taken to recover the loan balances that are in arrears.

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| <p>(b) The Association had rented out a part of the premises of the ground floor to an external institution in the year 2013 and the arrears in rentals amounting to Rs. 127,000 had not been recovered even at the end of 5 years and 03 months after they had left the building of the Association.</p> | <p>The Instruction had been summoned to appear in the mediation board on 12 November 2016 on the grounds of not making responses to the written notification submitted for the recovery of the rentals and even though the Chairman of the Institution had agreed to pay the arrears in rentals at the mediation board, the arrears have not yet been paid.</p> | <p>Action should be taken to recover the arrears in rentals.</p> |
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### 1.5.2 Payables

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
<p>-----</p> <p>Action had not been taken to systematically identify and to settle the unsettled credit balance amounting to Rs. 15,629,037 of the Contributions Account of the members whose memberships had been abolished as at 31 December 2018. It was observed to the Audit that the unsettled balance is increasing annually as this balance in the previous year was Rs. 12,062,928.</p>	<p>These balances are remaining unsettled as members had not made requests to obtain their moneys and due to the defects present in documents and the payments will be made adopting the specified methodology that these amounts would be paid after the owners of the amounts make requests pertaining to the money.</p>	<p>Systematic steps should be taken to settle the balances that should be paid.</p>

### 1.6 Non compliance with Laws, Rules, Regulations and Management Decisions

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Noncompliance with Laws, Rules, Regulations and Management Decisions are mentioned below.

<u>Audit Observation</u>	<u>Noncompliance</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
<p>(a) Sections 16 (1), (2) and (3) of the Public Service Mutual Provident Association Ordinance No. 5 of 1891.</p>	<p>The amendments made to the Rules approved at the 133 and 134 general meetings of the Association had not been published in the Gazette.</p>	<p>Required action is being taken to publish the amendments in the gazette.</p>	<p>Action should be taken in compliance with the Laws, Rules and Regulations.</p>
<p>(b) Sections 10 (1) in the Chapter I of the Public Service Mutual Provident Association</p>	<p>Even though the donation entitled by a deceased member should be paid within two months after the notification of the death of the</p>	<p>Reasons such as non-presentation of required documents and certificates</p>	

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| (Amendment) Act.  | member, death donations amounting to Rs. 4,925,000 to be paid in that way for deceased members had not been paid even by 31 December 2018.   | duly and not returning the receipts sent in relation to the payment of money had attributed to this delay in payments.   | Action should be taken in compliance with the Laws, Rules and Regulations. |
| (c) Sections 7 (b) (i) in the Chapter I of the Public Service Mutual Provident Association (Amendment) Act. | Action had not been taken in compliance with the Amendment Act in relation to 20 members who were in arrears of more than 6 loan instalments and the total of the loan balance to be recovered from those members by the closing date of the year under review was Rs.330,032. | One member out of 20 members had paid the instalments and it has been scheduled to do future activities by preparing final accounts for the rest of the members. |  |
| (d) FR 756 of the Financial Regulations of the Sri Lanka Democratic Socialist Republic of Sri Lanka         | The verification of goods had been conducted on 31 December 2018 as scheduled and the report on the verification of goods had not been presented for audit even by 06 May 2019.  | The report is being prepared.  | Action should be taken in compliance with the Laws, Rules and Regulations. |
| (e) Section 05 of the Public Enterprises Circular No. PED 12 of 02 June 2003                                | A Corporate Plan had not been prepared by the Institution.   | Action is being taken to prepare it in the future.   |  |
| (f) Public Finance Circular No. 1/2014 of 14 February 2014.   | An Action Plan had not been prepared by the Institution.   |  |  |
| (g) Sections 3.6, 3.9, 11.2 and 11.6 of the Sustainable Development Act No. 19 of 2017.                     | The Institution has to operate its resources efficiently for the achievement of the Sustainable Developmental Goals. Nevertheless, the Association has not yet functioned in this connection.  |  |  |

## 2. Financial Review

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### 2.1 Financial Results

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The operating result of the year under review amounted to a profit of Rs. 56,626,660 and the corresponding profit in the preceding year amounted to Rs. 51,606,969. Therefore, an improvement amounting to Rs. 5,019,691 of the financial result was observed. The major reason for the improvement had been the growth of interest income received on the grant of loans by an amount of Rs. 7,557,726.

## 3. Operational Review

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### 3.1 Management Inefficiencies

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<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
Even though two members had been nominated for representing the General Treasury at the Monthly Administration Committee meeting and the Special Committee Meetings conducted by the Association, their participation for the relevant meetings was in a poor condition. Accordingly, one representative had not participated for 7 sessions of the Committee meetings out of the 20 meetings conducted in the year 2018. Even though the other member should have participated for 13 sessions of the Meetings from the date of his appointment, he had participated only for 5 meetings.	Officers are unable to take part in certain instances due to their busyness even though they are informed of the meetings.	The officers should participate in committee meetings.

### 3.2 Operational Inefficiencies

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The following observations are made.

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(a) The Association monthly charges a percentage from the basic salary of the members as the membership contribution as agreed by members. It could be observed at the audit test check that membership contributions corresponding to the increased basic salary of members had not been charged from members in 35 occasions even though their basic salary had been increased annually.	Even though requests had been made, there are instances where the Heads of Institutions had not informed the present salary of members and in application for loans, salary slips are	The charging of membership contributions should be formalized.

		submitted and action is taken to update the contributions accordingly.	
(b)	It could be observed at the audit test check conducted using the computer system regarding the property loans provided by the Association that 4 members who had property loan balances totalling Rs. 995,098 as at 31 December in the year under review had defaulted the payment of loans.	One officer had settled loans and legal documents are being prepared to recover loans from the other three officers.	Formalized measures have to be taken to recover arrears in loan balances.
(c)	Loan balance which was in arrears up to 31 December 2014 due to the death of the member or due to other reasons had been brought to accounts in the statement of financial position as debtors. However, the Association had taken action to report such loan balances which had been in arrears within balance of members' loan account by changing the Accounting Policy existed so far, with effect from the year 2015. Accordingly, disclosing the debtors balance within the financial statements had not been done accurately.	The change in the Accounting Policy had been stated under the policy on debtors in the financial statements.	Appropriate Accounting Policies should be adopted to make accurate disclosures.
(d)	The participation of the members for annual meetings within the past 5 years was approximately 11 to 13 per cent out of the total number of members. It could be observed at the audit that the selection of the members to the Executive Committee of the Association and taking decisions for the advancement of the Association had taken place with the participation of lower number of members.	The date of conducting the meeting is personally informed to all the members along with the Report of the Association and the date is also informed through a paper advertisement.	Measures should be taken to increase the participation of the membership for annual meetings of the Association.

### 3.3 Transactions of Contentions Nature

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The following observations are made.

	<u><b>Audit Observation</b></u>	<u><b>Comments of the Management</b></u>	<u><b>Recommendation</b></u>
(a)	Even though the net result after offsetting assets and liabilities should not be stated in financial statements, a net balance of Rs.1,959,112 had been stated in financial statements by adjusting balances of receipts and payments in unidentified remittances account in the year under review.	Amounts had not been declared as assets and this account is a liability to the Association since the Association is liable to settle the amounts immediately after the owners claim their money.	Action should be taken in compliance with the Public Sector Accounting Standards.

- (b) The total of miscellaneous income and other receipts amounting to Rs. 1,959,112, received to the Association as at 31 December 2018 had been stated in financial statements as current liabilities instead of identifying and recording in accounts systematically. This balance has been growing annually and it was observed that the balance in the previous year was Rs. 1,660,266.
- Action is being taken to identify owners related to this amount, for which it had not been possible to identify an owner or a Department and which had been directly received to the Association through bank accounts.
- Miscellaneous income and receipts should be properly identified and brought to accounts.

### 3.4 Procurement Management

The following observations are made.

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(a) Six (06) items totalling Rs. 2,175,000 included in the annual procurement plan had not been procured during the year under review and 04 items totalling Rs. 1,745,743 which had not been included in the procurement plan had been procured in the year under review. Accordingly, it was observed that the Association had not functioned in compliance with the procurement plan in the year under review.	The institution had not procured the items included in the plan and had procured the items that had not been included in the plan as the Board of Management of the Association had decided to fulfil the requirements of the Association.	Procurement plans have to be prepared systematically and procurement should be done accordingly. Measures should be taken to revise the procurement plans timely as and when required.
(b) The renovation of the ground floor of the building where the Public Service Mutual Provident Association is located had been assigned to a contractor for a contract sum of Rs. 1,475,065. It could not be substantiated according to the file that the recommendation of the Technical Evaluation Committee and the approval of the Procurement Committee had been obtained for the bidding documents prepared as per the Procurement Guidelines. Even though a total of Rs. 226,928 had been paid more than the amount of contract for contractual work and additional work, the approval obtained from the Procurement Committee for that purpose could not be observed in the examination of the file.	The sum of Rs. 226,928 which had not been included in the BOQ had been paid for painting, and it was decided to refrain from charging a late fee as it was a short-term contract.	Action should be taken in accordance with the Procurement Guidelines.



#### 4. **Accountability and Good Governance**

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##### 4.1 **Effectiveness of the Management Information System**

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<u><b>Audit Observation</b></u>	<u><b>Comments of the Management</b></u>	<u><b>Recommendation</b></u>
<p>Facilities had not been provided in the computer system to make the adjustments related to the year under review to the balances of the ledger accounts through ledger entries. Adjustments were made to the balances obtained from the computer system, extraneous to the computer system through ledger entries and financial statements had been prepared based on those balances. Accordingly, it was observed that the facility for the preparation of financial statements using the computer system was not available in the computerized accounting system. Therefore, it is emphasised that it is risky to prepare financial statements without using the computer system.</p>	<p>This defect prevails in the computer system and action will be taken to rectify shortcomings in the year 2019.</p>	<p>The computer system has to be improved to the level that it is appropriate to prepare financial statements.</p>