

Public Service Mutual Provident Association - 2019

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Public Service Mutual Provident Association for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of income, 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 Section 18(2) (Cap.283) of the Public Service Mutual Provident Association Ordinance, as amended by the Public Service Mutual Provident Association Act No.13 of 1996. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Public Service Mutual Provident Association as at 31 December 2019, 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 Accounting 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 an 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 Association'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 intend to liquidate the Association or to cease operations, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing the Association'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 annual and periodic financial statements to be prepared by the Association.

1.4 Scope of Audit

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 those financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement 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 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 cast 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

Association, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Association has complied with applicable written law, or other general or special directions issued by the governing body of the Association;
- Whether the Association has performed according to its powers, functions and duties; and
- Whether the resources of the Association 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

Entities are 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 Accounting Deficiencies

Audit Issue -----	Management Comment -----	Recommendation -----
<p>The total of the unclassified remittances received to the Association as at 31 December 2019 had been a sum of Rs.3,071,058 and it had been stated as current liabilities in the financial statements instead of it being properly identified and being brought to account. It was observed that this balance had increased by a sum of Rs.1,111,946 or by 57 per cent as compared with the preceding year.</p>	<p>Action is being taken to settle these balances.</p>	<p>Miscellaneous Income and Receipts should be properly identified and should be brought to account.</p>

1.6 Receivables

Audit Issue	Management Comment	Recommendation
The contribution money of the members of whom the membership had been cancelled s at 31 December 2019 had not been settled in the Account. Steps had not been taken to properly identify and to settle the credit balance amounting to Rs.15,328,125. It was observed that a sum of Rs.2,167,861 of those balances had been a balance that is older than 5 years.	Action is being taken to settle those balances.	Action should be taken to settle those balances expeditiously.

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

The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non- compliance	Management Comment	Recommendation
(a) Sections 16(1), (2) and (3) of the Constitution of the Public Service Mutual Provident Association No.5 of 1891	The Rules, Amendments approved in the 133, 134 and 135 Annual General Meetings of the Association, had not been published in the Gazette Paper.	Necessary action remains to be taken expeditiously to publish the Rules, Amendments in the Gazette Paper.	Action should be taken in compliance with Laws, Rules, Regulations.
(b) Amended Constitution of the Public Service Mutual Provident Association			
(i) Section (1) (10) of Chapter I	Even though the Reward that a member is entitled	The payments had been delayed on not properly submitting	Action should be taken in compliance with Laws, Rules, and

should be paid within two months after the announcement of his death, Death Rewards amounting to Rs.6,215,000 that should be paid in that manner for the deceased members had not been paid even up to 31 December 2019. the relevant receipts for obtaining the original copies of the necessary documents and money by the members who are entitled to rewards and action would be taken to raise the awareness of persons and to make payments. Regulations.

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| (ii) | Section 7(b) (i) of Chapter I | It was observed at the audit test check that action that should be taken according to the Constitution had not been taken for 15 members with more than 6 outstanding loan installments. | Action would be taken either to recover the installments again with the outstanding money or to cancel the membership after the recovery of loans. | Action should be taken in compliance with Laws, Rules, and Regulations. |
| (c) | Section 05 of the Public Enterprises Circular No.PED/12 of 02 June 2003 | A Corporate Plan had not been formulated by the Association. | Action would be taken to formulate a Corporate Plan in the future. | Action should be taken in compliance with Laws, Rules and Regulations. |
| (d) | Public Finance Circular No.2014/1 of 14 February 2014 | An Action Plan had not been formulated by the Association. | Action would be taken to formulate an Action Plan in the future. | Action should be taken in compliance with Laws, Rules and Regulations. |

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs.67,102,229 and the corresponding profit in the preceding year amounted to Rs.56,626,660. Therefore an improvement amounting to Rs.10,475,569 of the financial result was observed. The increase of the interest income received on providing loans by a sum of Rs.11,237,159 had been the main reason for this improvement.

3. Operational Review

3.1 Management Activities

The following observations are made.

Audit Issue	Management Comment	Recommendation
(a) Even though it was proposed to construct a new building consisting of 4 floors in the same premises instead of the prevailing building of the Association under the Official Proposal 1 of the 135 th Annual General Meeting of the Association, it was not observed to the audit that it had been implemented in the year under review.	The Feasibility Study would be carried out in the future.	The Official Proposals of the Annual General Meetings should be implemented expeditiously.
(b) Even though the property loan had been increased from a sum of Rs.10 lakhs to a sum of Rs.12 lakhs as per the approval of the Monthly Committee Meeting held on 28 March 2019, it was not observed that the consent of the Deputy Secretary to the Treasury had not been obtained as per the rules of the Association, relating thereto. Moreover, the decision made in the Committee Meeting held on 29 May 2019 for raising awareness by sending text messages by a mobile phone to the members	The loan limit had been revised as per the decision of the Management Committee. A separate Unit has been established to identify the members who had failed to make payments and to charge money from them and telephone facilities has been provided for the aforesaid purpose.	The Committee decision should be effectively implemented and action should be taken to obtain the approval of the Treasury, when necessary.

who had failed to make payments had not been implemented and the decision made in the Committee Meeting held in October 2019 for obtaining a Report from the National Building Research Organization for the construction of a new building for the Association, had not been implemented even up to the end of the year under review.

3.2 Management Inefficiencies

The following observations are made.

Audit Issue	Management Comment	Recommendation
(a) Even though loans totalling Rs.3,010,058 had been obtained in the year under review and in the preceding year by 18 members who had obtained the membership of the Association in the year 2018, it was observed that any loan installment whatsoever of it had not been recovered even up to the end of the year under review.	Money is being recovered from three persons at this moment and action would be taken expeditiously to recover other amounts of money.	Steps should be taken expeditiously to recover the loans.
(b) It was observed that 10 members with a loan balance totalling Rs.10,100,701 had been failed to make the payments of the loans as at the last date of the	It has been scheduled to initialize legal actions.	The procedures of recovering loans should be implemented expeditiously and action should be taken to recover the loan balances.

year under review, in the audit test check carried out with the computer system relating to the property loans provided by the Association.

- (c) The participation of the members for the Anniversary General Meetings of the Association in the 5 preceding years was ranging from approximately 11 per cent to 13 per cent. As such, it was observed that the selection of the members qualified for the Board of Control of the Association and making decisions for the development of the Association as well, had been carried out with a representation of a lower number of members.
- Informing the date of the Anniversary General Meeting along with the Minutes of the Annual General Meeting, publishing the date in the Newspapers and informing of the date by text messages, would be carried out.
- Steps should be taken to increase the participation of members.
- (d) Moreover, even though two members had been nominated, representing the Treasury for the Monthly Meetings of the Board of Control and the Special Meetings of the Board of Control conducted by the Association, their participation for the relevant Meetings remained at a lower level. As such, one representative had not been participated for 17 sessions of the Meetings out of 23 sessions of Meetings held in the year 2019.
- The dates of the Meetings would be properly informed and awareness would be raised to avoid this condition, in the future.
- Steps should be taken to increase the participation of the members.

3.3 Procurement Management

The following observations are made.

Audit Issue	Management Comment	Recommendation
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(a) The purchase of an Item amounting to Rs.2,500,000 including in the Annual Procurement Plan had not been carried out in the year under review and procurement activities had been carried out in the year under review for 5 Items of which the total value being a sum of Rs.356,649, that was not included in the Procurement Plan. As such, it was observed that the procurement activities of the year under review had not been carried out as per the Scheduled Plan, by the Association.	It is being informed that the purchases had been made on urgent requirements.	Action should be taken as per the National Procurement Guidelines.
(b) A CCTV Camera System had been installed in the Katukeliyawa Holiday Resort of the Public Service Mutual Provident Association by spending a sum of Rs.287,860. It was not confirmed according to the File that the Recommendation of the Technical Evaluation Committee and the approval of the Procurement Committee had been	The procurement activities had been carried out as per the decision of the Board of Management.	Action should be taken as per the National Procurement Guidelines.

obtained as per the instructions of the Procurement Guidelines for the bidding documents, relating thereto.

3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
An approved cadre did not prevail for the Association and the actual cadre had been 31. A person had not been recruited even up to the end of the year under review for the post of the Secretary and the Treasurer of the Association that remain vacant from 13 February 2017.	A qualified person had not been applied for the above posts despite applications had been called on several instances to fill the vacancies for the post of the Secretary and the Treasurer.	Action should be taken to appoint a permanent officer expeditiously to the relevant post by properly calling for applications.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Issue	Management Comment	Recommendation
Variances ranging from 10 per cent to 100 per cent between the budgeted value and the actual value in 62 Objects including in the Budget prepared for the year 2019 by the Association. As such, it was observed that the Budget had not been used as an effective instrument of financial control.	The variances would be minimized as much as possible in subsequent years.	Action should be taken to use the Budget as an effective instrument of financial control.