

Public Service Mutual Provident Association - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Public Service Mutual Provident Association for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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(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 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, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Association as at 31 December 2022, 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 Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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 qualified 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 but 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 of the Association.

1.4 Audit Scope

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 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 Audit Observations on the preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) According to Accounting Policy No. 10 of the financial statements, an allocation equal to 0.5 percent of the annual interest income for ordinary loans should be made for doubtful debts, but at the end of the year under review, Rs. 333,091 had not been allocated for Doubtful debts.	According to rule ii of rule 17, "An amount equal to zero point five percent (0.5%) of the interest charged in each financial year on loans granted under rules 13 and 14 shall be set aside as a reserve to cover the possible debt incurred by the said loans must be provided.	That the accounts should be kept according to the accounting policy introduced by the association.
(b) According to the Non-recoverable Debt Document prepared by the association, the debt to be collected from 20 debtors more than 05 years old was Rs.5, 800,781 and no partial debt allocation was done for that loan.	As per the existing rules of the association (as per rule 17 rule ii) allocation of doubtful debts has been done and since there is an accumulated value in that reserve, the reserve value can be used to write off bad loans.	That a doubtful debts provision should be made.
(e) As on December 31, 2022, the sum of Rs.23, 139,657 in loan installments, interest, arrears of contributions, and arrears of funds etc. due from 288 members had not been accounted for. But the association had reported that the interest to be charged had been accounted for, but the amount was not specified.	As on December 31, 2022, the sum of Rs.23, 139,657 in loan installments, interest, arrears of contributions, and arrears of funds etc. due from 288 members had not been accounted for. But the association had reported that the interest to be charged had been accounted for, but the amount was not specified.	That necessary action should be taken to improve the existing system.

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| (d) According to the schedule submitted to the audit, a difference of Rs. 1,093,150 was observed when comparing the sum of the membership fees collected by the members up to the date of payment default and the calculation made by the audit. | The difference is due to an error in calculating the membership balance of members who are in arrears as at 31 December 2021 (starting balance). I will fix it. | Those accurate balances should be accounted for. |
| (e) According to the schedule, a difference of Rs.281, 827 was observed between the sum of loan installments to be collected from the concerned members from the date of payment default till the end of the reviewed year and the calculation made in the audit. | The difference is due to an error in calculating the arrears of members who are in arrears as at 31 December 2021 (on the opening balance). Action will be taken to correct. | That correct balances should be accounted |
| (f) It was observed that there is an unsettled balance of Rs.3, 976,485 as at 31 December 2022 in a suspense account called “Unclassified Remittance Account” where the members of the association directly account for credits to the bank. | The remaining balance to be further identified and settled is Rs.3, 976,485.14. Necessary arrangements are being made to settle this balance. | Prompt action should be taken to accurately identify and account for balances. |
| (g) During the last 04 months of the year under review, remittances credited to the bank account of the association amounting to Rs.292,063 were not identified and accounted. | Balance as on 31.12.2022 Rs. 292,063.59. But the amount that has been settled so far is Rs.222, 650.59 and only Rs.27, 413 remains to be settled. Since that value is the money deposited by cash deposit machines (CDM machines), the members will receive an SMS message about those deposits. We have been informed and we are working to get a confirmation about the relevant deposits and identify them. | All remittances should be properly identified and accounted. |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 64,333,050 and the corresponding profit in the preceding year amounted to Rs. 53,976,946. Therefore, an improvement amounting to Rs. 10,356,104 of the financial result was observed. The reason for the improvement is the 67 percent increase in investment interest income compared to last year.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Among the members recruited during the year, 26 members had not paid the membership fee and the union had not collected the membership fees from 09 members for 06 months and 10 members for 03 months.	To recover the money of the members who have defaulted on payment, they are constantly being informed personally and at the organizational level and are being urged to resort to legal means to collect the debt money that is no longer due.	That formal step should be taken to collect membership fees.
(b) The computer system was not developed to be able to distinguish the amount of installments and interest of the total outstanding loans in relation to each type of loan on any particular day.	The improvement of the computer system is currently being done and the computer system is being prepared so that it is possible to separate and identify the total outstanding installments and interest related to each type of loan on a specific day.	That the improvement of the computer system should be expedited