

Public Service Mutual Provident Association – 2017

The audit of financial statements of the Public Service Mutual Provident Association for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Public Service Mutual Provident Association as at 31 December 2017 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 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken to properly identify and settle the unsettled credit balance of Rs.12,062,928 existed in the Contribution Account of the members whose membership had become annulled as at 31 December 2017.
- (b) The balance totalling Rs.11,272,222 shown in the statement of financial position as the outstanding debtors due to the death of the member or other reasons had not been settled even up to 31 December 2017.
- (c) It was observed at the audit test check that a balance in arrears totalling Rs.9,284,602 comprising contributions of Rs.2,185,885 and loan installments of Rs.7,098,717 that remained outstanding due to the reasons such as the transfer of the member, involving in the foreign missions , proceeding abroad and other reasons, had not been settled even by 31 December 2017.

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 | Although limits of 6 categories of loans had been increased, the Rules relevant thereto had not been published in the Gazette during the year under review. Further, without being amended the Rules, the Association had taken action to grant loan of Rs.500,000 for postgraduate studies, charge Rs.2,099,785 from the members for establishing a pension fund and to pay Rs.2,467,414 to the members out of the funds recovered. |
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(b.) Revised Constitution of the Public Service Mutual Provident Association.

- (i) Section 10 (1) of Chapter I Although the death donation should be paid within 2 months of the notice of death, the death donations totalling Rs. 2,035,000 thus payable to 46 members as at 31 December 2017 had not been paid.
- (ii) Section 7(b) (I) of Chapter I Action that should have been taken against the 15 members with more than 6 installments in arrears, had not been taken as per the Constitution.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial result of the Association for the year ended 31 December 2017 had been a surplus of Rs.51,606,969 as compared with the surplus of Rs.44,653,408 for the preceding year. An improvement of Rs. 6,953,561 in the financial result was observed as compared with the preceding year. The increase in the loan interest income by a sum of Rs.8,292,494 in the year under review as compared with the preceding year had mainly attributed to the above improvement of the financial result.

In analyzing the financial results for the year under review and 04 preceding years, the after tax net profit amounting to Rs.34,982,548 in the year 2013 had continuously increased. After considering the tax paid to the Government, employee remunerations, and depreciations for non-current assets, the contribution of the year 2013 amounting to Rs. 58,369,240, had improved up to Rs. 81,116,152 in the year under review.

4. Operating Review

4.1 Performance

4.1.1 Planning

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

4.2 Management Activities

The following observations are made

- (a) A part of the ground floor of the building in which the Association is maintained had been given on rent to an outside institution relating to the year 2013 and the relevant rent in arrears had been Rs.127,000.
- (b) Action had not been taken to properly identify and settle the sundry income and other receipts totalling Rs.1,660,266 received by the Association as at 31 December 2017.

- (c) The Association recovers an agreed percentage of the basic salary of the member as the contribution of the member monthly. It was observed in audit test check that the members' contribution had not been recovered correspondingly to the increased basic salary of the member although the basic salary of the employees had annually increased.
- (d) In granting loans, those had been granted without being taken into consideration 40 per cent monthly recoverable limit of the salary as required by Section 3.5 of the Chapter XXIV of the Establishments Code. Accordingly, it was observed in audit test check that the relevant institutions had not taken action to recover 3 to 12 loan installments of 5 members relating to the property loan balances totalling Rs.5,125,418 as at the end of the year under review and to remit to the Association.

5. Sustainable Development

Every Public institution should adhere to the UN 2030 Agenda for Sustainable Development and the Public Service Mutual Provident Association was unaware of the fact that as to how it should act in connection with the functions coming under its scope relating to the year under review.

6. Accountability and Good Governance

6.1 Procurement

Although the Association had prepared a Procurement Plan for the year under review, action had not been taken to revise the Procurement Plan taking into consideration the changes taken place during the year under review. Accordingly, it was observed that 9 activities at total value of Rs.6,566,500 included in the Plan had not been carried out during the year under review while procurement activities relating to 4 activities not included in the Plan valued at Rs.342,755 had been carried out.

6.2 Budgetary Control

A variance ranging from 10 to 164 per cent in 58 items was observed between the budget and actuals, thus indicating that the budget had not been made use of as an effective instrument of management control.

7. 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 Systems and Control

Observations

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| (a) Method of Death Donations | Absence of a proper methodology for the prevention of delays in the payment of death donations. |
| (b) Control over Staff Loans of the Association. | Not controlling the staff loans by the computer system. |

