

## **Public Service Mutual Provident Association - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Public Service Mutual Provident Association for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 2020, 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**

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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**

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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, 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**

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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 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) The total amount of unclassified remittances received by the Association as at 31 December 2020 was Rs. 7,956,077, Instead of being properly identified and accounted, for it had been showed as current liabilities of the Financial Statement. it was observed that this balance had increased by Rs.4,885,020 or 159 percent compared to the previous year. However, the association had not introduced a system to obtain the information required by the bank or the remittance institutions to identify remittances made directly to the bank.	The Balance of Unidentified receipts (Sum of unclassified remittances) as at 31 December 2020 is Rs.7,956,077. This account contains unrecognized receipts by an owner or department received directly to the bank accounts. Due to Corona epidemic in the country, The Association was closed long time. Therefore, increased direct remittances from reasonable value in 2020. However, out of which Rs. 1,367,045 was settled and the balance will be settled as soon as possible.	The system should be upgraded so that the remittances to the Association can be properly Identified.
(b) The credit balance of Rs.19,279,643 in the contribution account of the members whose membership had been terminated as at 31 December 2020 and had not been properly identified and settled. That amount was represented in the financial statements under the creditors.	This figure represents the sum of the contributions and interest account of the members who have applied to resign from the membership on 31 December 2020, whose membership accounts are being processed on loss of membership and whose membership has been terminated due to death. This balance is comprised due to non-presenting of members to receive their money and the	Need to take steps to settle immediately.

shortcomings in the documents. These payments will be made following the prescribed procedure as soon as the owners come forward to receive the money.

- (c) As at 31 December 2020, 468 members of the Association had defaulted on installments amounting to Rs. 29,008,947. Further recovery from these dept balances had not been analyzed on the uncertain dept balance and its impairment value identified and adjusted in the financial statements.
- Action will be taken to inform regarding the members' contributions, death grant, medical fund, pension fund, loan installments and all related interest to the members of the Association and the institutions where they work, by telephone or letter and collect money. Due to the Corona epidemic in the country during the year, this work was slightly affected by occasional travel restrictions.
- Immediate action should be taken to recover the arrears.

## 1.6 Accounts Receivable and Payable

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### 1.6.1 Receivables

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Audit Issue -----	Management Comment -----	Recommendation -----
(a) The total amount Rs.920,205 loan balance related to the period prior to the year 2016 due to the member is deceased or other reasons was shown as debtors in the Statement of Financial Position. The audit observed that all the dept balances were more than 5 years.	Dept balances due on death or other reasons are still being recovering from those persons or their dependents and some of them will be reimbursed in installments. However, no action will be taken to deduct this money due to further attempts to recover that amount.	Necessary steps should be taken to recover the outstanding dept balance.
(b) The balance in the donation payable for deceased members as current liabilities for the year under review was Rs. 5,735,000. The list of death payable members submitted to the audit in respect of this balance. According to that	Owing to the deficiencies in the files and the non-presentation of the heirs, it is included in the payable list and the owners are awaiting the grant payment as soon as they submit it.	Need to find information and take action to resolve it immediately

document, the death grant balance payable for 30 members over 5 years of age was Rs.1,420,000.

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

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Article (1) (10) of the amended Constitution of the Public Service Mutual Fund Association.	Although the dependents were required to pay the claim within two months of the death of a member, the total amount of Rs. 5,735,000 had not been paid December 31, 2020.	Grants will be paid to members within two months of the reporting of the death and the grant reports that have not been paid due to the holders of the relevant allowances not submitting the required documents. Such as death certificate, marriage certificate, birth certificate etc. properly. Due to not submitting the relevant documents properly, members are being duly informed about this and steps are being taken to expedite the relevant payments. Furthermore, many of the widows and children of the former members have been identified as expatriates, making it difficult to obtain the above documents from them. In many cases, we do not receive a return receipt for payment. Because such reasons, death grants are also delayed. To minimized these delays,	Necessary provisions should be implemented to fulfill the requirements of the constitution of the Association.

heir nomination forms will be issued to members whose names are not currently heirs. It is hoped that this will also largely avoid these delays.

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| (b) Article 16 (1), (2) and (3) of the Constitution of the Public Service Mutual Fund Association No. 5 of 1891 | The rules approved at the 133, 134, and 155 general meeting of the association were not published in the Gazette.        | The rules approved at the 133, 134, and 135 General Meetings have been drafted and are being expedited for publication in the Gazette.                                   | Acting in accordance with the Constitution.            |
| (c) Financial Regulations 756.  | The board of survey was conducted on 31 December 2020 and the report had not been submitted for audit till 28 July 2021. | Due to the current Corona situation in the country, the board of survey has not been carried out so far and I will take action to submit the report as soon as possible. | Should comply with Financial Regulations.              |
| (d) Section 05 of the Public Enterprise Circular No. PED 12 dated 02 June 2013.                                 | The Association had not prepared a corporate plan.   | Action will be taken to prepare a corporate plan in the future.  | Should act in accordance with the circular provisions. |
| (e) Public Finance Circular No. 1/2014 dated 14 February 2014   | The Association had not prepared an action plan.   | Action will be taken to prepare an action plan in the future.  | Should comply with applicable rules and regulations.   |

**2. Financial Review**

**2.1 Financial Result**

The operating result of the year under review amounted to a profit of Rs. 53,976,946 and the corresponding profit in the preceding year amounted to Rs. 67,102,229. Therefore, a deterioration amounting to Rs. 13,125,283 of the financial result was observed. The reason for the deterioration is decreased from 77% of Other Income than the preceding year.

### 3. Operational Review

#### 3.1 Management Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Although it was planned to hold 12 sub-committee meetings on cash audit and default loan in the year 2020, only 06 committees were held.	Due to the unfavorable conditions and complying to occasional rules imposed in the country, the meeting was restricted.	Should act in accordance with the relevant rules.

#### 3.2 Operational Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) The Association had defaulted on a property loan of Rs.2,020,357 given to 07 members up to 31 December 2019.	Actions are being taken to recover arrears from members who have defaulted on loans and legal action will be initiated to recover money from defaulting members.	Immediate action should be taken to recover the loan.
(b) At the end of the year under review, the number of non-performing members of the pilgrimage loan was 15 and the total amount due was Rs.1,194,853.	Necessary action will be taken in the future to recover the money from all non-performing members.	Need to take immediate action to recover the outstanding loan installments.
(c) The growth of the membership of the Association during the period from 2015 to 2020 was 168, 1333, 336, 568 and 98 respectively. Accordingly, the recruitment of members had decreased by 82 percent in the year 2020 as compared to the previous year and the year under review.	During the last year, the country did not have a conducive environment for recruitment campaigns, so there was a sharp decline in recruitment and other strategic plans were promoted to recruit members. Accordingly, The Association already started a Youtube channel and released two programs and has published attractive advertisements on Facebook account. An attractive loan scheme called 'Diriya' with a maximum interest rate of 8% up to a maximum of Rs. 500,000 has also been introduced.	Need to take action to recruit new members.

### 3.3 Human Resources Management

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<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
----- An approved cadre was 32, but the actual cadre had been 30. A person had not been recruited even up to the end of the year under review for the post of the Joint Secretary and the Treasurer of the Association that remain vacant from 13 February 2017.	----- Applications have been called for the vacant post of joint Secretary and Treasurer of the Association through a newspaper advertisement and action will be taken to recruit qualified candidates for the post as soon as possible.	----- Action should be taken to appoint immediately to the relevant posts.