

Public Service Mutual Provident Association - 2021

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 2021 comprising the statement of financial position as at 31 December 2021 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 2021, 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) As at December 31 2021, there were 500 defaulting members with outstanding balances totaling to Rs.32,980,807 in outstanding of membership fees and loan installments and loan interest. The outstanding balances had not disclosed in the financial statements.	Arrears of Contribution, arrears of loan installments and arrears of loan interest are accounted on a cash basis. Therefore, are not disclosed in the financial statements as outstanding balances. Necessary actions are being carried out to make all accounts on accrued basis in future.	Action should be taken to make Disclosure of outstanding membership fees, loan installments and interest in the financial statements.
(b) According to Accounting Policy No. 3(1), interest income was accounted on cash basis. An interest income of Rs.6,815,743 should have been received for the year under review, but the said income was not disclosed in the financial statements.	Since interest income is accounted on the cash basis, it is not disclosed in the financial statements as an outstanding balance. Necessary activities are being carried out to make all accounts on accrued basis in future.	Receivable Interest income should be disclosed in the financial statements.
(c) On 20 April 2021, the Finance Committee had recommended to writing off the outstanding balances of 13 debtors amount of Rs.402,499. In the year under review, only the	The Finance Committee recommendations are implemented after approvals of the Monthly Management Committee. Accordingly, the monthly	The debtor balances should be recovered and the debtor balances that cannot be recovered should be formally written

- loan balances of Rs.175,404 related to 07 of those debtors were written off as bad debts. management committee has only approved to write off Rs.175,403.77 as the loan balance of seven from those debtors, so that amount has been written off.
- (d) According to Board Paper No. 136/21/04, the total amount of Rs.474,367 payable to 08 resigned members had not been accounted even by 31 December 2021. According to Board Paper No. 136/21/04, The payable balances to resigned members are included in the respective member accounts and are not shown under a separate account. The payable amounts to members who resigned from the association should be disclosed in the financial Statements.
- (e) At the end of the year under review, a sum of Rs.26,165,743 in arrears of membership fees and outstanding loan installments was not included in the financial statements, and the policy of not including such arrears in the financial statements was not disclosed in the financial statements. Arrears of Contribution, loan installment and loan interest are accounted on a cash basis. Therefore, are not disclosed in the financial statements as outstanding balances. Necessary activities are being carried out to prepare all accounts on accrued basis in future. The principles are used in the preparation of financial statements by the association should be disclosed in the financial statements.
- (f) According to the financial statements submitted to the audit, the value of the property, plant and equipment as at 31 December 2021 was Rs.85,185,156. Annual board of survey reports confirming the physical existence of those assets were not submitted for audit. Necessary steps will be taken to carry out a survey of the physical existence of the property, plant and equipment. should be carry out a board of survey to confirm the existence of physical assets of the association.
- (g) A total amount of Rs.335,729 worth of checks were received by the association from various parties, and those checks had expired even by 31 December 2021. The debtors represented by the canceled checks had not been re-accounted. Arrangements are being made to remove those unrealized checks from the accounts and for that bring in new checks or extend the dates. The value of canceled checks should be taken into account as debtors.
- (h) The balance of the contributions payable to deceased members was Rs.19,421,207 and the list of individual balances related to that balance and its time analysis was not submitted to the audit. In this account, includes not only contributions and interest payable to deceased members but also include contributions and interest from members who resign and receive contributions [6(a)1]. Its timing analysis is presented. Should be prepared a lists of individuals balance for the amounts payable to the deceased members.

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| <p>(i) During the year under review a total of Rs.9,346,917 was paid to non-members under (CHPA DV). From those payments, in the payment vouchers of 252 payments for a sum of Rs.8,162,535 did not mention voucher numbers, check numbers and dates, but only mention values. Hence payments could not be satisfactorily audited.</p> | <p>A check issues from a payment voucher on payment to the respective institutions for non-member receipts entered in the unclassified remittance account. But in posting the receipts which are identified late, to the respective member accounts, a payment voucher is used as a note to remove from the unclassified remittance account. A check number is not mentioned because of check is not issued for it. As indicated in the audit query, there are journal entries relating to the credited and debited amounts of Rs.13,775,717 and Rs.5,344,881.</p> | <p>Expenditure accounted from a payment voucher, so all relevant details must be included in the voucher.</p> |
| <p>(j) From journal entries, an amount of Rs.13,775,717 was credited and also an amount of Rs.5,344,881 was debited to the unclassified remittance account. Formal journal entries for those entries were not submitted for audit.</p> | <p>As indicated in the audit enquiry, there are journal entries relating to the amount credited and debited by journal entries of Rs.13,775,717 and Rs.5,344,881.</p> | <p>All journal entries related to transactions made by journal entries to the financial statements should be submitted for audit.</p> |
| <p>(k)As at 31 December 2021, there was a balance of Rs.7,395,147 in the unclassified remittance account. For that, a time analysis consisting of individuals balance was not submitted to the audit.</p> | <p>The Time Analysis of Unclassified Remittance Account is presented.</p> | <p>Should maintain a time analysis with individual balances for unclassified remittances.</p> |

1.6 Accounts Receivable and Payable

1.6.1 Payables

Audit Issue

A total of Rs.4,725,000 should be paid as death grant as at 31 December 2021 in respect of 88 members who died from 2010 to 2021. During the year under review, only Rs.300,000 was paid for respect of 04 members.

Management Comment

The grants will be paid within 2 months after the death of a member is reported and the grants that have not been paid are due to the owners of the grants not properly submitting the original copies of the necessary

Recommendation

Should maintain members' up-to-date bio-data of the association.

documents and the receipts related to receiving the money. Members are duly informed and arrangements are being made to expedite the respective payments. Many of the widows and children of old members are identified as residents of foreign countries, and it is a difficult task to get the above documents from them. In order to minimize this delay, heir nomination forms are being issued to members who have not been nominated heirs.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Section 21 of Ordinance No. 5 of 1891	New rules and amended rules must be adopted by at least 2/3 majority vote of the members at the Annual General Meeting. But it was observed that amendments are approved and implemented on the basis of 2/3 majority in every Annual General Meeting. As at 31 December 2019, the membership of the association was 14,384, but only 1,903 members attended the annual general meeting in 2019.	The date of the annual general meeting is announced twice in the newspapers and the annual report is also sent to each member. Also, about a week before the annual general meeting, every member is informed through a short message (SMS). Also, every member who attends the meeting will be given a transport allowance to attract more members, thus further efforts will be made to increase the participation of the members. Resolutions are passed by majority vote of the members present. The minimum number of members required to hold the Annual General Meeting is 60.	A maximum number of members should be associated for the general meetings of the association.

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

The accounting software system had not been developed to get the total outstanding loan installments and interest separately on any given day.

Management Comment

In the future, efforts will be made to improve the computer system to identify outstanding loans, installments, and interest separately in the computer software system.

Recommendation

The computer system should be improved immediately.

3.2 Operational Inefficiencies

Audit Issue

(a) During the year under review, 374 new members had joined the association and 198 members had resigned and another 101 members died. Accordingly, the net increase of members in the year under review were 75 members.

(b) In the year under review, 13 management committee meetings were held. Two members out of the committee members did not participate in 9 and 6 meetings respectively. Also, it was planned to hold 12 meetings of the Financial Audit and Payment Committee, but only 06 meetings were held.

Management Comment

The new recruitments had decreased due to the current covid 19 pandemic situations. In the future, various promotional programs will be used to increase the number of members.

According to section 4:3 of Public Authority 474, as amended by Decree Act No. 5 of 1891, it is specified that a committee member who does not attend 3 consecutive monthly management committee sessions, without presenting an acceptable reason, the membership is canceled. Therefore, as decided in the monthly management committee held on 30.03.2022, arrangements were made to cancel the tenure of Mr. W. A. D.

Recommendation

Should increase the number of members of the association.

Participation of committee members in committee meetings should take place properly and arrangements should be made to hold meetings as planned.

Fonseka because he did not participate in 3 main management committees consecutively. Committee member D H Wijethilaka has not cut in three committee meetings consecutive. Due to the covid epidemic situation in the country in the year 2021, the committee meetings could not be held as planned due to the difficulty in getting officials to participate.

3.3 Human Resources Management

Audit Issue

The approved staff as at 31 December 2021 was 32 and the position of Chief Internal Audit remained vacant on a recruitment basis if required.

Management Comment

On 28.08.2020 the Management Committee decided to create the post of Chief Internal Auditor and hire a qualified officer from outside if necessary. The management committee has not yet taken a decision regarding the need to fill the vacancy.

Recommendation

Considering the neediness of recruitment for internal audit positions and should make arrangements to recruited.