

Public Service Mutual Provident Association - 2013

The audit of financial statements of the Public Service Mutual Provident Association for the year ended 31 December 2013, comprising the statement of financial position as at 31 December 2013 and the income statement 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 the Public Service Mutual Provident Association Ordinance (Cap 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. The detailed Audit report will be issued to the President of the Association in due course.

1.2 Management's Responsibility for the Financial Statements

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 consistence with the International 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 judgments, including the assessment of the risks of material misstatement 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 qualified audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Public Service Mutual Provident Association as at 31 December 2013 and its financial performance and the 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 Sri Lanka Public Sector Accounting Standards

Even though the assets should be depreciated from the date of assets becoming suitable for use up to the date of disposal the assets purchased by the Association had not been depreciated for the relevant period in the year of disposal.

2.2.2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) The balance recoverable as at the end of the year under review from the deceased members and those who had lost their memberships amounted to Rs. 2,028,593. Out of that a sum of Rs. 1,784,822 had been outstanding over period ranging from 01 year to 05 years. No recoveries whatsoever had been made in the year under review from sum of Rs. 1,489,217 receivable from 71 members. In addition a sum of Rs. 849,623 recoverable from 20 members who had defaulted the loan interest and accruals remaining outstanding over a long periods. Even though there is an uncertainty over the recovery of the above debts, an adequate provision had not been made in that connection.
- (b) A sum of Rs. 16,735 remaining recoverable due to the default in the payment of Donator money as at the end of the year under review had not been brought to account.
- (c) A sum of Rs. 4,194 received in April 2012 as loan installments in connection with the sum of Rs. 44,334 due to the Association from a member who had died on 22 March 2012 had been retained in the Deposit Account without being deducted from

the loan recoverable. Thus loan receivable had been overstated by a sum of Rs. 4,194.

- (d) The sum of Rs. 425,139 payable to a consultancy firm for preparation of plans for the Holiday Resort at Anuradhapura had not been brought to account.

2.2.3 Unexplained Differences

Differences totaling Rs. 37,979 existed between the opening balance of 7 members shown as debtors in the computer printouts and those balances shown in the schedule of debtors.

2.2.4 Accounts Recoverable and Payable

The following observations are made.

- (a) Even though every members should pay a sum of Rs. 25 per month or Rs.5 on completing the age of 50 years to the Death Donation Fund as Donatory installments, a sum of Rs. 1,155 receivable from 03 months to 01 year as at the end of the year under review and a sum of Rs. 15,580 receivable as donatory contributions from 08 members to whom the letters of forfeiture of membership letters had been sent, remained without being recovered.
- (b) Contributions totaling Rs. 152,271 receivable from 38 members relating to periods ranging from 03 months to 01 year remained without being recovery as at the end of the year under review.
- (c) Interest on donator loans amounting to Rs. 98,307 which should have been received as at the end of the preceding year under Rule 14 of the Constitution (Amended) of the Public Service Mutual Provident Association, remained without being recovered due to the delay in the payment of Death Donations.

(d) A sum of Rs. 1,029,761 in the Unclassified Remittance Account and a sum of Rs.574,672 relating to members Loan in the Sundry Adjustments Account as at the end of the year under review, remained without being settled.

2.2.5 Lack of Evidence for Audit

The evidence indicated against the following items had not been furnished to audit.

Item	Balance according to Accounts	Evidence not made available
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	Rs.	
Unclassified Remittances	931,664	} Letters of Confirmation of Balances and Lists of Individual Balances
Contributions of Members who had forfeited membership	14,087,460	
Death Donation Payable	2,705,000	} Letters of Confirmation of Balances
General Deposits	98,096	
Advances received for Services	67,386	
Loan Payable	75,408	
Sundry Debtors	2,073,269	
Loans for Members	656,120,290	Age Analysis of Loans
Refundable Deposits	65,985	Ltters of Confirmation of Balances, Agreements, Source Documents for Deposits.
Lawyer's Fees and Valuation fees	64,674	Particulars of Loan Applicants, Age Analysis

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

Instances of non-compliance with the following laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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Constitution (Amended) of the Public Service Provident Association (i) Section 10 (a) (ii) (d)	The surplus money in the Death Donation Augmentation Reserve Fund should be invested with the concurrence the Treasury. Nevertheless, sums totaling Rs. 68,415,353 of this Fund and other Funds had been invested in Treasury Bills and fixed deposits as at 31 December 2013 without obtaining the Treasury approval in terms of the Amendment Contribution.
(ii) Section 10(i)	Even though the Death Donation relating to a member should be paid within 02 months from the date of informing the death of the member, out of the Death Donations payable totaling Rs.2,705,000 Death Donations amounting to Rs.1,710,000 represented those payable in connection with deaths prior to the year 2012. Accordingly the Association had not implemented a formal methodology for the payment of Death Donations after having informed of such death.

- (iii) Section 11 of Chapter II of the Constitution
- The Executive Committee should consider all the leased once in two years with regard to the existing condition of the properties mortgaged for properly loans and their valued. If the Executive Committee is of the view that the existing conditions and the value thereof should be examined, such examinations should be carried out by a committee consisting of members of the Executive Committee. Nevertheless, the existence of any properties mortgaged that should be examined had not been identified.
- (iv) Sub-paragraph 12-v and Sub-paragraph 12-vii of Chapter II of the Public Service Mutual Provident Association Act, No. 5 of 1891
- In the case of granting property loans to the staff, the loan application should furnish the valuation reports from two Professional Valuers and a temporary deed covering the loan together with an insurance policy as security for the loan. But the Association had not taken action as specified above for the grant of property loans to the staff in the year 2013.
- (v) Section 5(i) and Section (ii) of the Constitution amended on 05 January 2007 in accordance with the Public Service Mutual Provident Association Ordinance No. 5 of 1891.
- Even though the interest recoverable on loans amount to 12 per cent per year, the interest recoverable in cases of regular payment of interest on or before the tenth day of the month, following the month relating to the interest, the interest recoverable is 9 per cent. Even though the Executive Committee has the power to change the rate of interest in accordance with

the rates of interest declared by the Central Bank of Sri Lanka, the recovery of interest at 12 per cent which prevailed at the time of granting loans to members by mortgaging property had been recovered regularly. The Executive Committee had not carried out a review based on the rates of interest of the Central Bank of Sri Lanka.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Association for the year ended 31 December 2013 had resulted in a net profit (after tax) of Rs. 35,738,993 as compared with the corresponding net profit (after tax) for the preceding year amounting to Rs. 28,705,879, thus indicating an increase of Rs. 7,033,114 or 24.05 per cent in the profit of the Association for the year under review. The increase in the interest income from loans had been the reason for the increase.

4. Operating Review

4:1 Performance

(a) The contribution of the Executive Committee for the Good Governance of the Association and the contribution of the Members for the meetings of the Boards of Control.

The following observations are made.

- (i) Even though 20 monthly and special meeting of the Executive Committee had been held, one of the representatives appointed by the Treasury had attended only 07 of the 13 meetings he should have attended as he had resigned from the Committee. The other representative had attended only 08 of the 13 meetings.
- (ii) According to the details of attendance at the meetings of the Committees, the attendance at the meetings by the members appointed to the Executive Committees, Additional Committees and Sub-Committees had been low. As such the contribution from certain members had not been received for taking decisions for the welfare of the Association.

(b) Memberships

The information on the membership of the Public Service Mutual Provident Association during the 05 years from the year 2009 to the year 2013 revealed at an examination thereof is given below.

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Membership as at 01 January	10,727	10,664	10,947	10,982	11,091
Add:					
New enrolme nts	363	671	393	358	583
Reinstatement of Membership	48	35	22	13	6
Less:					
Cessation of membership	474	423	380	262	210
Membership as at 31 December	10,664	10,947	10,982	11,091	11,470

The following observations are made in this connection.

The membership of 10,664 as at 31 December 2009 had increased only to 11,470 as at 31 December 2013. Even though a large number had been recruited to Public Service in the 5 preceding years, only 2,368 had been enrolled as new members of the Association.

As such the Association had not followed a meaningful methodology for the improvement of the membership of the Association and the retention of members.

(c) Attendance of Members for the Annual Meetings

Even though the members of the Executive Committee are appointed at the Annual Meetings, the attendance of members at those meetings had been at a very low level. As such the election of members for the Executive Committee of the Association and the contribution to the resolution at the Annual Meetings had not taken place with the participation of the larger number of members. It was observed in audit that such situations would adversely affect the future functions of the Association. Even though the attendance of members at the Annual Meetings held the year under review and 06 preceding years had decreased as shown below, there was no evidence of any action taken by the Association to avoid such situation.

Year	Number of Members	Number present for the Annual Meeting	Percentage
2013	11,470	1,502	13.09
2012	11,091	1,377	12.42
2011	10,982	1,363	12.41
2010	10,947	1,334	12.18
2009	10,664	1,185	11.11

2008	10,727	1,037	9.67
2007	10,897	976	8.96

4.2 Weaknesses in Loan Management

The following observations are made.

- (a) A test check revealed that over-recoveries had been made from 08 members who had been granted property loans and that their loan balances had been shown at a negative value of Rs. 18,003 in the Register of Loans to Members.
- (iii) It was observed that 64 salary loan balances amounting to Rs. 1,971,583 receivable as at the date of last transaction, 53 contribution balances amounting to Rs. 458,741 and 6 Death Donation loan balances amounting to Rs. 58,873 had been remaining as dormant loan balances over a long period.
- (iv) An examination of the Passbook of Membership No. 16857 revealed that, despite the unavailability of contribution savings, a sum of Rs. 102,518 comprising contribution loan recoverable amounting to Rs. 44,885 and salary loan recoverable amounting to Rs. 57,633 remained and that loan installments whatsoever had not been paid after 14 September 2009.
- (v) Even though computer loans totaling Rs. 72,785 had been paid in the year 2013, loan installments and interest had not been recovered from two members.

4:3 Management Inefficiencies

Even though the foundation stone for the construction of a Holiday Resort for the benefit of the members had been laid on 31 October 2013, construction work had not been commenced even by 30 June 2014.

4:4 Irregular Transactions

Even though the institution which had taken the ground floor of the Association building on lease had vacated the premises in March 2013, a sum of Rs. 207,000 had been shown as the rent receivable from that institution as part of the goods had not been removed. The recovery of the money had been doubtful.

4:5 Vacant Post of Joint Secretary and Treasurer

An officer had not been appointed to the post of Joint Secretary and Treasurer of the Association from 01 June 2011 to 11 June 2013 and the officer recruited to the Post of Assistant Secretary had been acting in the post of Joint Secretary and Treasurer from that date. The Joint Secretary and Treasurer recruited from 12 June 2013 had resigned with effect from 31 December 2013. The post of Chief Administrative Officer of the Association so remaining vacant was observed as a weakness of the management of the Association.

4:6 Uneconomic Transactions

The Association had maintained a safety-deposit in the Bank of Ceylon since the year 1995 on the payment of a deposit of Rs. 10,000. Even though all the documents of the Association are maintained at present in the building owned by the Association, a fee of Rs. 4,000 had been paid even during the year under review for maintaining a safety-deposit.

4:7 Buildings Fund

Even though the balance of the Buildings Fund as at the end of the year under review amounted to Rs. 10,774,103 a sum of Rs. 1,877,350 only had been invested in fixed deposits. Interest at 7 per cent had been credited to the Fund on the assumption that Rs. 6,683,866 had been utilized for the payment of salary loans.

According to Section 19.1(b) of the Constitution, this Fund can be utilized for the payment of salary loans only. But evidence in support of the utilization of the sum of Rs. 6,683,866 only for the payment of salary loan was not available.

4:8 Weaknesses in the Computer System

The contract of 05 stages amounting to Rs. 970,000 for the preparation of computer programmes for the function of the Association had been awarded by a private company in the year 2010. A sum of Rs. 225,000 for the first stage thereof had been paid in the preceding year while the other stages had not been implemented. The following functions had not been achieved from the computer programme implemented.

- (a) Even though a computer programme capable of preparing final accounts should have been prepared, final accounts could not be prepared through the computer programme supplied.
- (b) Opening balances remaining in the income and expenditure accounts.
- (c) Deficiencies prevailing in the information on sundry debtors in the computer system.

5. Accountability and Good Governance

5:1 Corporate Plan

A Corporate Plan in terms of Section 5 of the Public Enterprises Circular No. PED/12 of 02 June 2003 had not been prepared.

5:2 Action Plan

The Association had not prepared an Action Plan.

5:3 Internal Audit

The Association had not taken action for carrying out an effective internal audit by attaching an adequate staff for the Internal Audit.

5.4 Budgetary Control

Significant variances ranging from 10 to 138 per cent in 48 items were observed between the budget and the actuals, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the attention of the Joint Secretary and Treasurer of the Association from time to time. Special attention is needed in respect of the following areas of control.

- (a) Computer System
- (b) Systems of Death Donations
- (c) Building Fund
- (d) Improvement of Membership
- (e) Budget
- (f) Members' Loans
- (g) Fixed Assets
- (h) Working of Control Committee