

The Public Service Mutual Provident Association – 2012

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 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 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

Even though 22 units of 5 items of fixed assets determined as non-usable by the Boards of Survey carried out as at 31 December 2011 and 2012 had been precluded from fixed assets registers, action had not been taken to dispose them.

1.2.2 Unreconciled Control Accounts

A sum of Rs.219,697 in the unclassified imprest account and a sum of Rs.394,489 in the sundry adjustment account for unsettled members' loans as at the end of the year under review remained unreconciled.

1.2.3 Accounts Receivable and Payable

The following observations are made.

- (a) A balance of Rs.1,998,062 receivable from deceased and members whose membership was forfeited was shown under sundry debtors. Of this balance, a sum of Rs.1,657,401 had been the loan balances receivable from 88 members who

had been granted loans during the periods 1 to 5 years. Out of the loan balances of Rs.1,583,060 recoverable from 73 members, any money whatsoever had not been recovered during the year under review. As there were no contributions or any other funds in the Association to recover or to set off the members' outstanding balances and they had no commitments with the Association, the recoverability of outstanding loan balances of Rs.1,998,062 had become uncertain. Non-ascertainment of securities in granting loans had been the reason for this position.

- (b) Loan installments and interest thereon remained outstanding for periods ranging from 3 months to 01 year receivable from 20 members who had defaulted the payment of loan interest and contributions and from 4 members to whom cancellation of membership letters had been sent, amounted to Rs.622,202 by the end of the year under review. Out of it, loan installments and interest unpaid by members to whom cancellation of membership letters had been sent totaled Rs.189,613. However, the recoverability of the entire loan balances from those members had become uncertain.
- (c) Thirty one members had not paid their contributions totaling Rs.109,743 for the periods ranging from 3 months to 1 year.
- (d) The amount receivable from donatory loans given under Rule No. 14 was Rs.98,307 as at the end of the previous year. It had not been recovered even by the end of the year under review as well.

1.2.4 Lack of Evidence for Audit

- (a) Evidence shown against the following items of accounts was not made available for audit.

Item -----	Value -----	Evidence not made available -----
	Rs.	
Unclassified remittances	530,964	} List if individual balances
Contributions of membership cancelled persons	14,934,697	
General Deposits	311,267	
Advances received for services	82,445	} Confirmation of balances
Loans payable	98,106	
Sundry debtors	846,085	
Loans to members	602,183,245	Age analysis
Refundable deposits	65,985	Agreements, supporting documents relating to deposits
Lawyers fees and valuation fees	75,965	Particulars of loan applicants, age analysis
Money credited to Contingency Reserve recovered from members enrolled during the past years	28,900	Particulars of 289 members

- (b) In terms of Section 10(a)(ii)(d) of the revised Constitution of the Public Service Mutual Provident Association, the surplus funds of the Death Donation Augmentation Reserve Fund should be invested in securities approved by the Treasury. Nevertheless, money of the Association's Fund and other fund accounts totaling Rs.56,797,110 had been invested in Treasury Bills and fixed deposits as at 31 December 2012, but evidence to ensure that the approval in terms of Constitution had been obtained, was not made available for audit.

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

Non-compliance with the following laws, rules, regulations and management decisions were observed.

**Reference to Laws, Rules,
Regulations and Management
Decisions**

Non-compliance

(a) Revised Constitution of the
Public Service Mutual Provident
Association

(i) Section 19(ii)

Although the Management Committee is entrusted to operate an Elders' Home for the welfare of the members, it had not been implemented up to the date of this report.

(ii) Section 10(i)

Although the death donation should be paid within 2 months of the notice of death, the death donations payable to 93 members, whose deaths had been informed and lapsed for more than 2 months amounted to Rs.4,180,000 according to the statement of deaths as at 31 December 2012 presented to audit. This amount included a sum of Rs.2,660,000 payable to only those who died during the year 2011 and before. Accordingly, there is no methodology to inform the Association or to find out by the Association after a death occurs.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operations of the Association for the year ended 31 December 2012 had resulted in a net profit of Rs.28,705,879 (after tax) as compared within the net profit of Rs.26,557,392 (after tax) for the preceding year, thus indicating an improvement of the profit of the Association for the year under review amounting to Rs.2,148,487 or 8.08 per cent.

3. Operating Review

3.1 Performance

(a) Membership

Particulars of membership for the five years from 2008 to 2012 are given below.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Membership as at 01 January	10,897	10,727	10,664	10,947	10,982
Add:					
New enrolments	205	363	671	393	358
Reinstatement of Membership	36	48	35	22	13
Less:					
Cessation of membership	(411)	(474)	(423)	(380)	(262)
Membership as at 31 December	----- 10,727 =====	----- 10,664 =====	----- 10,947 =====	----- 10,982 =====	----- 11,091 =====

The following observations are made in this connection.

- (i) The membership of 10,727 as at 31 December 2008 had increased to 11,091 by 31 December 2012. The enrolment of new members during the last 5 years had been only 1,990. Even though there was a considerable increase in the new entrants to the public service during the last year, an effective methodology had not been followed to improve the membership of the Association.

- (ii) The cessation of memberships during the last 5 years stood at 1950 and out of that 887 or 45.49 per cent represented resignation from membership. Resignations had increased during the last 5 years.

(b) Attendance of Members at the Annual General Meetings

Even though the members of the Management Committee are selected at the Annual General Meetings, the attendance of the members at those meetings had been at a very low level. Therefore, the election of members for the Management Committees and the adoption of proposals placed before the Annual General Meetings had not taken place with the participation of a majority of the membership. Attendance of members at the Annual General Meeting in the year under review and the past 6 years had gradually decreased from 12 per cent to 9 per cent.

3.2 Inefficiencies in Debt Management

- (a) A test check observed that there were negative balances in the pass books of 9 deceased or resigned members.
- (b) Although the Association had recovered contributions on the basis of the basic salary of members, it was observed at a test check that action had not been taken to recover contributions considering their revised salary scales including salary increments, revision of salaries etc. As a result, the receipt of contributions to the Association had decreased.
- (c) A computer loan of Rs.75,000 had been granted to a member in March 2012, who had defaulted the payment of contributions after paying the arrears of contributions at once. Only a balance of Rs.10,670 existed in his deposit accounts and he had not paid contributions, loan installments and interest after obtaining the loan. Follow up action had not been taken to recover that loan.

- (d) A member had obtained a membership loan of Rs.11,610 in August 2012, salary loan of Rs.15,000 , festival advance of Rs.10,000, mobile phone loan Rs.10,000, special book loan of Rs.10,000 and a computer loan of Rs.75,000. He had not paid interest for the months of September and November and the outstanding loan balances as well.
- (e) In the examination of 40 loan files carried out at test checks, out of 75 members to whom property loans had been granted in the year 2012, it was observed that the official seal of the Valuer who had valued the properties had not been placed in 10 valuation reports.
- (f) A member who obtained a property loan in August 2012 had not paid loan installments and no follow up action thereon had been taken as well.
- (g) Thirty three files in connection with property loans had been destroyed by pests. The following observations are made in this regard.

 - (i) Certain files had been completely destroyed by pests and no action had been taken to protect them.
 - (ii) The Association had incurred a loss due to spending money for the preparation of deeds of the destroyed property loan files.
- (h) The Association had decided to obtain applications only from members who are willing to obtain property loans after a delay, and there were 16 applications in the waiting list by 15 February 2013. Similarly, the payment of property loans as compared with the preceding year had decreased by 28 per cent. It was observed that obtaining applications only from persons who are willing to obtain loans from waiting list and having to wait for sometime to take the loan, has created a tendency for members to leave the Association. The Joint Secretary informed the audit that the objective of the Association is to provide a relief for the members' short term financial needs.

3.3 Deviation from the Provisions of Shops and Office Ordinance

According to the procedure manual prepared by the Association, after completion of 2 years from 21 July 2010, provisions in the Shops and Office Ordinance are applied to all staff of the Association. However, certain officers in the staff have not followed the provisions in this manual and they are allowed to enjoy privileges and advantages entitled for public officers.

3.4 Existence of the Vacancy for the Post of Joint Secretary and Treasurer

In terms of Sections 1 and 2 of Chapter II of the procedure manual of the Association, the post of the Joint Secretary and Treasurer is the Chief Administrative officer of the Association. The Joint Secretary and Treasurer had not been recruited since 01 June 2011 and the female officer who had been recruited as the Assistant Secretary had been acting for the above post. The post of Chief Administrative Officer had been vacant for more than 1 ½ years.

3.5 Uneconomic Transactions

The Association maintains a vault in a State bank since 1995 and a deposit of Rs.10,000 had also been made thereon. A sum of Rs.4,000 had been paid in the year under review for that vault. As all the documents are kept in the building belonging to the Association at present, it was observed that there was no need to maintain a vault by spending money.

3.6 Death Donation Fund

It had been decided in terms of Article 10(a)(ii) of the Revised Constitution, to utilize the surplus money of the Death Donation Augmentation Reserve Fund in approved investments or for the grant of loans to members and the balance of that reserve fund as at the beginning of the year under review amounted to Rs.55,195,648. The following observations are made in this regard.

- (a) The accounting records of the Death Donation Augmentation Reserve Fund, the information such as cash belonging to the fund, money invested therefrom, interest received from investments, the amount of money utilized for the payment of loans and the interest thereon and the payment of 1 per cent administration cost had not been maintained, to identify separately in terms of Article 10 (a)(ii)(a) of the revised constitution.

- (c) There were delays ranging from 3 months to 45 years in paying death donations. The augmentation grants of Rs.1,515,100 remained for more than 5 years, had been credited to the Reserve Fund. As a result, the total death donation amount payable had not been disclosed in the accounts.

3.7 Weaknesses in the Computer System

A contract valued at Rs.970,000 had been awarded to a private firm, for the preparation of a computer programme in 5 stages for the functions of the Association. A sum of Rs.225,000 had been paid in the preceding years for the 1st stage. Subsequently, the balance stages had not been carried out. The following functions had not been carried out in the computer programme implemented.

- (a) Although a programme enabling to prepare final accounts should have been installed, the final accounts could not be prepared from the computer programme supplied.

- (b) Information relating to the membership stored in the computer, had not been reconciled with the information available in the Association.

4. Accountability and Good Governance

4.1 Contribution of the Management Committees

The following observations are made in respect of the management committees contribution and the participation in the meetings of the Management Committee for good governance of the Association.

- (a) Out of the 18 monthly meetings and special management committee meetings held, one representative appointed by the Treasury had participated only in 10 meetings and the other representative had resigned after December 2011, but no one had been appointed for that post.
- (b) According to the attendance records of the committee meetings, the participation of certain members who were elected for monthly management committees, additional management committees and sub-committees had been very weak. As such, an adequate contribution of certain committee members in taking decisions for the empowerment of the Association had not been afforded.

4.2 Corporate Plan, Action Plan and its Operation

The Corporate Plan and the Action Plan for the year under review had not been prepared.

4.3 Internal Audit

An effective audit had not been carried out by deploying a sufficient membership of staff for the internal audit of the Association.

4.4 Budgetary Control

Significant variances ranging from 10 to 1787 per cent in 48 items were observed between the budget and actuals, thus indicating that the budget had not been made use of as an effective instrument of management control.

5. 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) Death Donation Scheme
- (c) Building Fund
- (d) Improvement of Membership
- (e) Budget
- (f) Members' Loans
- (g) Fixed Assets
- (h) Performance of the Management Committees