

## **Public Service Mutual Provident Association - 2014**

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The audit of financial statements of the Public Service Mutual Provident Association for the year ended 31 December 2014, comprising the statement of financial position as at 31 December 2014 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 Joint Secretary and Treasurer 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 consistent 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 2014 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**

#### **2.2.2 Accounting Deficiencies**

The following accounting deficiencies were observed.

- (a) A sum of Rs.37,556 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.
- (b) Money received from certain debtors included in the debtors schedule had not been stated according to the debtors according to computer statements while there were understatements and overstatements. An audit test check revealed an omission of Rs.1,000 relating to one debtor in the computer, overstatement

of Rs.9,999 relating to two debtors in the computer and understatement of Rs.45,971 relating to three debtors.

- (c) A sum of Rs.143,498 recoverable in respect of the period January to November 2014 from an institution which had taken on rent 1,050 square feet area of the ground floor had not been shown in the accounts. The rent agreement had been signed after the elapse of 05 months.

### 2.2.2 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	1,388,027	Letters of Confirmation of Balances. Lists of Individual Balances
Advances received for Services	98,633	} Letters of Confirmation of Balances
Sundry Debtors	1,847,398	
Sundry Adjusted Accounts	740,797	Lists of Individual Balances and Age Analysis
Refundable Deposits	65,985	Letters of Confirmation of Balances, Agreements and Source Documents relating to Deposits

### 2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Out of the balances totaling Rs.1,766,471 recoverable from deceased members and those who had forfeited the membership shown under the debtors, a sum of Rs.1,722,715 remained recoverable from 89 members over periods

exceeding one year to 05 years. No recoveries whatsoever had been made during the year under review from amounts totaling Rs.1,309,512 out of that recoverable from 60 members. Uncertainly of the recovery of the sum of Rs.1,766,471 was observed in audit due to the Association did not have a system for the recovery from the respective members or unavailability of contributions for set off or other procedure for recovery.

It was observed in audit that if loans are granted on security furnished, there is a possibility of recovering the outstanding loans.

- (b) The total of the interest on loans and contributions recoverable as at the end of the year under review from 49 members who had defaulted the payment of interest on loans and contributions from 03 months to one year and over one year and from two members to whom letters of forfeiture of memberships had been sent amounted to Rs.1,911,665.
- (c) Even though every member 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, the number of members who had defaulted the payment of a sum of Rs.37,556 as at the end of the year under review relating to periods from 03 months to one year and over one year had been 42.
- (d) The number of members who had not obtained loans but defaulted the payment of contributions only had been 85 and a sum of Rs.534,559 remained recoverable from them.
- (e) Out of the property loans paid to a member, a sum of Rs.358,573 remained recoverable as at 01 January 2013. Out of those loans, no recoveries whatsoever had been made in the year 2013 and up to November 2014. A sum of Rs.17,875 had been recovered in December 2014 and no recoveries whatsoever had been made from January 2015 up to date.

In terms of Section 10 of Chapter II of the Constitution of the Association, in the case of default of payments exceeding 03 months the borrower should be notified to pay the money in one lump sum and effect recovery. Even though a

sum of Rs.358,573 out of the property loans granted to a member remained recoverable as at 01 January 2013 no recoveries had been made in the year 2013 and up to November 2014.

#### **2.4 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

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Non-compliance

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(a) Sections 16(1), (2) ad (3) of the  
Constitution of the Public Service  
Mutual Provident Association No.  
5 of 1891

The Rules relating to the Rs.50,000 motor  
cycle loan, the Rules relating to the loan of  
Rs.100,000 for higher education introduced in  
the year under review and the Rules relating to  
the Pension Fund commenced from October  
2014 had not been published in the Gazette.

(b) Amended Constitution of the  
Public Service Mutual Provident  
Association

(i) Section 10(a) and (d)

Even though action should be taken for the  
utilization of the surplus money in the Death  
Donation Augmentation Reserve Fund and the  
Buildings Fund for the grant of loans to  
member or for investment as approved by the  
Treasury, a sum of Rs.108,696,228 had been  
invested in Treasury Bills and Fixed Deposits  
as at 31 December 2014 without the approval  
of the Treasury.

- (ii) Section 13(a) and the Gazette Extraordinary No. 1777/38 of 18 September 2012
- In the case of Rs.50,000 loan granted for pilgrimages organized by the State Banks, the balance cost of the pilgrimage should be deposited in the Account of the Association. Contrary to such condition loans amounting to Rs.640,000 had been granted during the year under review to 13 members.
- (iii) Section 10(1)
- 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, Death Donations amounting to Rs.935,000 in respect of 20 member who had died in the year 2015 and the preceding years had not been paid. Audit was informed that the delays had been due to the deficiencies in the documents furnished by the recipients of Death Donations. The Association had not taken action to rectify the deficiencies relating to periods exceeding one year and make payment.
- (iv) Section 5(I) and Section 5(II) of Chapter II
- 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.

(c) Establishments Code of the Democratic Socialist Republic of Sri Lanka

(i) Section 11.14 of Chapter XXIV

Even though all documents relating to the payment of property loans should be in the custody of the Head of Department until the loan is repaid in full, the title deeds and title reports relating to certain property loans granted by the Association had been kept with the institution which provided legal services for property loans.

Even though it is the responsibility of the Association to keep the documents obtained for the grant of loans in safe custody, action had not been taken to discharge such responsibility. As such 33 files containing the documents obtained for the grant of property loans had been destroyed by termites in the year 2011.

(ii) Section 11.12 of Chapter XXIV

The property acquired should not be alienated or encumbered so long as any part of the loan remains unsettled. Nevertheless, the building relating to the land kept as security for the loan had been leased out by the owner of the property to an outside party to run a dispensary.

**3. Financial Review**

**3.1 Financial Results**

According to the financial statements presented, the operations of the Association for the year ended 31 December 2014 had resulted in a net profit of Rs.37,935,936 as compared with the corresponding net profit for the preceding year amounting to Rs.34,982,548 , thus indicating an increase of Rs.,2,953,388 or 9 per cent in the profit of the Association for the year under review.

**4. Operating Review**

**4.1 Performance**

- (a) The contribution of the Executive Committee for the Good Governance of the Association and the attendance of the Members for the meetings of the Executive Committee

The following observations are made.

- (i) The representations appointed by the Treasury had attended only 9 meetings out of the 22 monthly and special meetings held by the Executive Committee.
- (ii) According to the information on the attendance at the meetings, the attendance of the members appointed to the Executive Committee, Additional Committees and Sub-committee at the monthly meetings had been very low.

In view of the situation, adequate contribution of certain Committee members had not been made to the Association in taking decision for the wellbeing of the Association.

(b) Memberships

The information on the membership of the Public Service Mutual Provident Association during the 05 years from the year 2010 to the year 2014 revealed at an examination thereof is given below.

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Membership as at 01 January	10,664	10,947	10,982	11,091	11,470
Add:					
New Enrolments	671	393	358	583	574
Reinstatement of Membership	35	22	13	6	01
Less:					
Cessation of Membership	423	380	262	210	270
Membership as at 31 December	----- 10,947 =====	----- 10,982 =====	----- 11,091 =====	----- 11,470 =====	----- 11,775 =====

The membership of 10,947 as at 31 December 2010 had increased only to 11,775 as at 31 December 2014. But only 2,579 had been enrolled as new members of the Association during the preceding five years.

As such the Association had not followed an adequate and meaningful methodology for the improvement of the membership of the Association despite the several fold increase in the number of persons recruited to the Public Services.

(c) Attendance of Members for the Annual General Meetings

Even though the members of the Executive Committee are selected and appointed at the Annual General Meetings, the attendance of members at those meetings had been at a very low level. As such the selection of members for the Executive Committee of the Association and the contribution to the resolutions adopted at the Annual General Meetings had not taken place with the participation of a larger number of members. It was observed in audit that

such situations would adversely affect the future functions of the Association. The attendance of members at the Annual General Meetings held in the year under review and 06 preceding years had been as follows.

Year	Number of Members	Number present for the Annual General Meeting	Percentage
2014	11,775	1,562	13.27
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

#### **4.2 Management Inefficiencies**

The following observations are made.

- (a) Even though the activities of the Association are computerized, the correct information on the debtors for the year under review could not be obtained from the system. Action had not been taken for maintaining the computer system in the updated manner.
- (b) An additional charge of Rs.16,500 had been paid for the printing of the Report on the 130 Annual Conference Report due to inviting bids without determining the specifications for printing.
- (c) Even though a portion of office space of the building owned by the Association had been given on rent to an outside institution in the year 2013, a sum of Rs.127,000 recoverable from that institution had not been recovered even by the end of the year under review and that had been shown as a receivable in the accounts.

As a period of one year and 03 months had elapsed after the vacation of the building by that institution it was observed in audit that there was an uncertainty over the recovery of the money.

#### **4.3 Operating Inefficiencies**

The following observations are made.

- (a) Even though there is the possibility for the settlement of the long outstanding balances relating to members in the accounts (Death Donation entitlement, loans, contributions) and the information on the members (deaths, change of address, proceeding abroad, forfeiture of membership) by carrying out a survey of the bio data of the members of the Association, the Association had not taken action to carry out such survey.
- (b) Even though the normal methodology to be followed in the implementation of new proposals envisaged by the Association is for such proposals to be decided at a Committee meeting adoption at the Annual General Meeting and implementation after publication in the Gazette, contrary to that, a decision had been taken for the recovery of a sum of Rs.20 from all members of the association whether retired or the active Service. A sum of Rs.423,117 had been collected as at 31 December 2014 from the members for the payment of an allowance at the retirement. Discrepancies were observed between the period decided for payment and the relevant allowance. The particulars of members entitled to the pension allowance and the arrears had not been prepared.
- (c) A portion of the office space of the ground floor of the building owned by the Association had been rented out to a private institution with effect from 01 August 2014 without determining the rent and signing a rent agreement. The institution concerned had vacated the building on 31 December 2014 and the rent deposit of Rs.110,000 had been accounted for as rent without taking action for the recovery of arrears of rent.

#### **4.4 Irregular Transactions**

The following observations are made.

(a) Construction of a Holiday Resort on Katukeliyawa Land at Anuradhapura

A contract agreement for a sum of Rs.27,660,111 had been entered into on 10 June 2014 for the construction of the above Holiday Resort. The following matters were observed at an examination carried out in that connection.

(i) Even though the contract price furnished by the institution to which the contract was awarded, amounted to Rs.27,724,440 , the total of the prices given for the items of the contract amounted to Rs.31,058,607. That price according to the report of the Technical Evaluation Committee amounted to Rs.31,097,063. Even though the institution which furnished the bids did not indicate a discount, the prices furnished by the institution had been shown as the lowest price by deducting a sum of Rs.2,638,706 as discount. Nevertheless, the prices of the lowest bidder amounted to Rs.30,270,336. As such the statement that the contract was awarded to the institution which quoted the lowest price cannot be accepted.

(ii) Even though the Performance Bond produced for the contract had expired on 05 December 2014, its validity had not been extended.

(iii) Even though the consultancy fees payable to the institution selected for obtaining consultancy services for the constitution work had been decided as 2.5 per cent of the contract value, the consultancy fees had been paid based on the estimated cost the contract amounting to Rs.31,585,069.

(b) The retention money amounting to Rs.22,500 of the contract for the first stage of the installation of the computer system had been paid to the contractor despite the existence of deficiencies in the computer system.

(c) Supply of Security Services

Even though the contract for the supply of security services to the Association had been awarded to an institution which had not furnished a valid registration number for the Value Added Tax, a sum of Rs.167,175 had been paid as the Value Added Tax in the payments made for security services from the year 2010 to the year 2014.

**4.5 Underutilisation of Funds**

According to the Cash Books of the Association, Bank balances exceeding Rs.10 million existed continuously from January 2014 in two Bank Current Accounts. Action had not been taken to use that surplus money in short term investments for earning additional income.

**4.6 Idle and Underutilisation Assets**

According to the particulars of the recovery of lease income it was observed that office space of 2,250 square feet of the ground floor of the building owned by the Association had been vacant for 07 months.

**4.7 Uneconomic Transactions**

The Association had maintained a safe deposit box at the Bank of Ceylon since the year 1995 and had placed a deposit of Rs.10,000 for that purpose. In addition a sum of Rs.4,000 had been paid as safe deposit box charge in the year under review. The need for maintaining a safe deposit box on payment of a charge for that does not exist at present as the Association keeps all its documents in the building owned by the Association.

**4.8 Staff Administration**

The following observations are made.

- (a) Two posts in the Executive Staff and 06 posts in the non-executive staff existed over several preceding years. Even though an interview had been held on 25 July 2014 for the recruitment to vacant post of Assistant Secretary and

Treasurer and an officer had been selected, recruitment had not been done even by 31 May 2015.

- (b) According to the Manual of Procedure adopted and implemented by the Association, the provisions of the Shop and Office Employees Act should be applicable to all employees of the Association after the elapse of two years from 21 July 2010. Despite the elapse of the period of two years on 21 July 2012, the provisions of the Shop and Office Employees Act had not been made applicable to the overall staff of the Association, even after 21 July 2012.

## **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 in terms of the Public Finance Circular No. 01/2014 of 17 February 2014.

### **5.3 Internal Audit**

Two officers only had been deployed for the internal audit of the Association and the Association had not taken action for carrying out an effective internal audit by deploying adequate staff for the Internal Audit.

### **5.4 Budgetary Control**

Significant variances ranging from 10 to 367 per cent in 54 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 notice 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) Budgetary Control
- (d) Members' Loans Control
- (e) Fixed Assets Control
- (f) Working of Control Committees