

Universities Provident Fund - 2014

The audit of financial statements of the Universities Provident Fund for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, the statement of changes in equity 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 Section 12 of the Universities Act, No. 16 of 1978. My comments and observations which I consider should be published with the Annual Report of the Fund in terms of Sub-section 12(5) of the Universities Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

The 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 International Auditing 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 judgements, 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 Fund'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 Fund'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 audit opinion.

2 Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Universities Provident Fund as at 31 December 2014 and its financial performance and 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 Accounting Deficiencies

The following observations are made.

- (a) Contributions of Rs. 6,903,570 unidentified as at 31 December 2013 had not been identified even in the year 2014 and that value had increased up to Rs. 6,954,807 in the year under review. The aforesaid value had been credited to the Unclaimed Benefits Reserve in the final accounts.
- (b) A dormant member's balance of Rs. 40,352,106 of the Provident Fund had been shown as at 31 December 2014 and the amount of money receivable to the Fund for breach of agreements included in that balance had not been identified and disclosed in the accounts. Moreover, payments of Rs. 5,875,548 had been made as interest as well for dormant members for the year under review.

2.3 Accounts Payable

The balance of provident funds totalling Rs. 26,351,592 payable as at the end of the year under review included the balance of provident funds payable amounting to Rs. 24,373,385 lapsed from 01 to 13 years. No formal methodology had been prepared to settle those amounts.

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

The following non - compliances were observed in audit.

Reference to laws, rules, regulations etc.

Non-compliances

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| (a) Paragraph 92 (3) of the Universities Act No.16 of 1978 | Even though the annual compound interest should be fixed with the approval of the Minister in charge of the subject of Finance and on the decision of the relevant Minister and subject to the provisions of the Ordinance, the approval of the Minister of Finance had not been obtained in respect of interest rates relating to the year 2014. |
| (b) Finance Circular No. 6/2014 dated 29 December 2014 of the University Grants Commission | Even though contributions and loan instalment recovery lists relating to the months of November 2014 and December 2014 should be received to the University Grants Commission on or before 15 December 2014 and 15 January 2015 respectively, contributions of Rs.8,696,900 and lists in respect of loan instalment recovery of Rs.1,113,350 relating to 9 institutions had not been submitted to the Provident Fund within the due period. |

- (c) Finance Circular No. 3/2001 dated 02 February 2001 of the University Grants Commission
Even though the provident fund contributions for the relevant month should be received by the University Grants Commission on or before the 10th of the following month, according to the test check, 35 instances were observed in which contributions relevant to five months had not been received to the Provident Fund.
- (d) Paragraph 3 of Public Enterprises Circular No. 45 of 27 October 2007
Even though a statement of responsibility on the preparation and presentation of financial statements should be submitted, such a statement had not been submitted.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the result of the operating activities of the Fund for the year ended 31 December 2014 had been a surplus of Rs. 2,541,161,941 as compared with the corresponding surplus of Rs. 2,259,182,079 for the preceding year, thus indicating an improvement of Rs. 281,979,862 in the financial result. The increase in the income of net investments by Rs. 274,779,176 in the year under review had mainly attributed to the above improvement in the financial result.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

- (a) The value of bonds recoverable to the universities from officers who breached agreements amounted to Rs. 78,289,363 in the audit test check carried out in 03 universities. Even though balances amounting to Rs. 51,269,542 of the Provident Fund of the relevant officers had remained, action had not been taken to recover the aforesaid amounts even up to the end of the year under review.
- (b) Despite having a sum of Rs. 13,787,699 recoverable from 03 members of the University of Moratuwa due to breach of agreements, the provident funds entitled to those officers had been released and legal action had not been taken to recover the balances even by the date of audit.
- (c) Action had not been taken to compute the relevant outstanding cost of living allowance and credit the sum of Rs. 171.7 million to the members' accounts of the Universities Provident Fund received from the Treasury in the years 2012 and 2014 for settling the outstanding cost of living allowances. The Chairman of the Fund had informed the audit that funds could not be credited to the relevant members due to the delay in presenting information in this connection by the universities.

5. Accountability and Good Governance

5.1 Budgetary Control

Even though an annual budget should be prepared for funds raised under the Statutory Law in terms of paragraph (a) of the Treasury Circular No. 836 of 16 August 1977, an annual budget had not been prepared in terms of the aforesaid Circular.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Secretary of the Fund from time to time. Special attention is needed in respect of the following areas of control.

- (a) Control of Members' Funds
- (b) Budgetary Control