

The audit of financial statements of the Universities Provident Fund for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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**  
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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**  
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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 judgement, 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.

**1.4 Basis for Qualified Opinion**  
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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of 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 Universities Provident Fund as at 31 December 2015 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**

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#### **2.2.1 Accounting Deficiencies**

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The following observations are made.

- (a) The expenditure of Rs. 1,304,400 incurred by the Universities Grants Commission for the Fund had been considered as expenditure of the Universities Grants Commission instead of accounting as expenditure of the Fund.
- (b) If any loss or damage is sustained by a Higher Educational Institution by reason of the dishonesty or negligence of a contributor, in terms of Section 94 of the Universities Act, that amount shall be a first charge on the amount lying to his credit in the Provident Fund. Nevertheless, the amount receivable for the Fund for breach of agreements had not been identified and disclosed in the accounts.

### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) Out of the value of Provident Fund amounting to Rs. 25,369,758 of which the payments had been stopped due to various reasons as at the end of the year under review, the amount recoverable to the Government from the contributors to be recovered and the outstanding amount which should be settled to them had remained during a period from 01 year to 14 years. However, the Fund had informed the audit that this amount could not be settled due to shortcomings in applications.
- (b) Action had not been taken up to the end of the year under review to recover the Provident Fund totalling Rs. 222,681 receivable from two higher educational institutions at the beginning of the year under review.

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

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The following non - compliances were observed in audit.

## Reference to laws, rules, regulations etc.

(a) Decision of the Cabinet of Ministers  
No. 403/99/0438/11/033 of 09 April 1999

(b) Universities Provident Fund Ordinance  
No. 01 of 2015

(i) Paragraph 08

(ii) Paragraph 10

## Non-compliance

The amount credited to the Provident Fund had decreased due to crediting more than the amount mentioned in the Decision of the Cabinet of Ministers to the Universities Pensions Fund.

A methodology had not been formulated for the absorption of allowances paid to the investment committees related to the decisions of the investments of the Fund, as expenditure of the Fund.

Even though there should be a Supervising Board in the Fund appointed by the Commission, for the review of affairs of the Fund for a specific period and giving instructions to the Commission on matters of the policy matters of the Fund, such a Supervising Board had not been appointed even by the end of the year under review.

## 3. Financial Review

### 3.1 Financial Results

According to the financial statements presented, the financial result of the Fund at the end of the year under review had been a surplus of Rs. 2,545,061,004 as compared with the corresponding surplus of Rs. 2,512,880,552 for the preceding year, thus indicating an improvement of Rs. 32,180,452 in the financial result of the year under review as compared with the preceding year. The increase in the income from investments by Rs. 5,374,353 had mainly attributed to the improvement in the financial result.

### 3.2 Analytical Financial Review

The current asset ratio of the Fund in the year under review had been 14:1 whereas the current asset ratio had improved by 88 per cent as compared with the preceding year. The increase in short term deposits by Rs. 2,502,000,000 had mainly attributed to this improvement.

## 4. Operating Review

### 4.1 Performance

The following observations are made.

(a) Even though a delay of a period of 06 years had been observed to settle 17 balances of the Provident Fund due to delay in submitting reports and statements of liabilities of the

contributors by the universities and higher educational institutions, follow up action had not been taken to minimize this position and update the payments of the Fund.

- (b) A sum of Rs. 41,230,956 should have been recovered from 17 officers who breached agreements and bonds out of contributors who claimed the balance of the Provident Fund in the year 2015. As the total balance of the Provident Fund of those officers was Rs. 17,515,669, it was observed in audit that a sum of Rs. 23,715,287 exceeded the balance of the Provident Fund should have been further recovered to the higher educational institutions. However, legal action could not be taken to recover the remaining balances of those officers due to delay in notifying the Universities after the recovery of money to the relevant institutions from the Provident Fund.

#### **4.2 Management Activities**

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Out of the sum of Rs. 525,000,000 received from the Treasury in the years 2012 and 2014 for the settlement of outstanding cost of living allowances, a sum of Rs. 104,893,466 had not been utilized for the relevant purpose and action had not been taken as well to settle the relevant amount by calling the required reports from the universities.

#### **5. Systems and Controls**

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

- (a) Utilizing the money received from the Treasury to settle the outstanding cost of living allowances, for the relevant purpose.
- (b) Minimizing the delays in the recovery of contributions and releasing the balances of the Provident Fund.