

Universities Pension Fund - 2017

The audit of Financial Statements of the Universities Pension Fund for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and statement of financial performance, 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 Responsibility of the Management 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 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 misstatements 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. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and the extent of the audit.

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, except 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 Pension Fund as at 31 December 2017 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

Even though the Fixed Deposit valued at of Rs. 675 million which were to be matured in the next year should be included under the current assets of the statement of financial position considering as short term investment, it had been shown as long term investment under non-current assets

2.3 Lack of Evidence for Audit

Even though, while investing in the short term investments (REPO), the investment decisions should be taken after considering the interest rates obtained from the relevant competitive financial institutions for making investments on effective interest rates, evidences had not been presented to the audit that competitive rates had been called from financial institution with regard to 71 investments valued at Rs. 5,073 million made during the year under review.

3. Financial Review

Financial Results

According to the financial statements presented, the operations of the Fund for the year ended 31 December 2017 had resulted in a surplus of Rs. 701,008,810 comparing with the corresponding surplus of Rs. 573,079,624 for the preceding year thus indicating an increase of the financial results by Rs. 127,929,186 in the year under review as compared with the preceding year. However, increase of the net investment income by Rs.139,482,388 had mainly attributed to the above improvement.

In analyzing financial results of the year under review and of 04 preceding years, a steady improvement was observed in the financial result from the year 2013 to 2017. After making adjustments for the income tax paid to the Government, the contribution of Rs.455,045,869 in the year 2013 was improved to Rs. 723,048,413 at the end of the year 2017.

4. Operating Review

4.1 Performance

4.1.1 Activities and Review

Following observations are made.

- (a) According to the first Section of the University Grants Commission Circular No. 747 of 10 June 1999, all permanent employees of the University Grants Commission and all universities under its purview are compulsory members of the Pension Fund since 01 September 1999 and an employee who was a member of the pension cannot solicit membership only for the provident fund after changing his decision by withdrawn from the pension fund. However, from the Circular Letter No. 12 dated 16 December 2016 issued by the University Grants Commission, amending Section 4.1 of that circular, members who have not reached their retirement age of 20 years were allowed to transfer their balance of their Pension Fund to the University Provident Fund on their request. Accordingly, 90 contributors of the pension fund had transferred their pension contribution of Rs.40,110,697 to the Provident Fund at the end of the year under review. It is observed this is may be adversely affect to the Fund's future.
- (b) By the end of the year under review, 14,442 members were in the Pension Fund and out of that 1,856 members were inactive. Even though out of 252 pension members', balances were not appeared in the personal accounts of 53 members, Rs. 8,229,530 had been paid as pensions to them during the year under review.
- (c) Even though a decrease in improvement of the Fund from 28 per cent to 21 per cent observed in the year 2017 when comparing to the year 2013, number of members of pensioners had increased from 149 to 252 in the year 2017. Similarly, the amount of Pension paid to them was increased from Rs. 27 million to Rs 51 million. Accordingly, it was observed even though the improvement of the fund was decreased the value of payment of shown a continuous increasing trend.

4.2 Management Activities

Following observations are made.

- (a) A credit balance instead of debit balance had been observed in maintaining the cash book at the end of each month. Therefore, it was observed that the internal control was weak relating to cash.
- (b) This pension scheme had been established and maintained on the basis of the Commission's Circular No. 747 dated 10 June 1999 on the proposal of the Cabinet meeting held on 3 January 1996 to establish a pension scheme governed by the

University Grants Commission under the Universities Act No. 16 of 1978, However, according to Section 97 of the Universities Act No. 16 of 1978, although the Commission could establish an Ordinance to regulate, administration and management of the Pension Fund, such a set of rules had not been prepared and introduced.

- (c) A sum of Rs. 365,000 had been paid in the years 2013 and 2014 for actuarial valuations of the members of the Pension Fund for the future security of the Pension Fund. Even though, the evaluation reports related to this have been submitted on 1 October 2013 and 26 March 2014, so far no further action had been taken.
- (d) Although the investment committee had given approval for investing the cash of the Fund in the Treasury Bond to the value of Rs, 250 million in 2 instances during the year under review, only Rs. 50 million had been invested in Treasury Bonds from the Fund. Although this situation has arisen due to a tender bid of Rs. 50 million had been submitted from the selected "Fund Manager" alone, attention of the Management had not been made to the Bids submitted by Alternate Investment Managers.

5. Systems and Controls

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

Area of System and Control -----	Observation -----
(a) Investment	Excess money had not been invested in the alternative ways for receive maximum results.
(b) Fund Control	<ul style="list-style-type: none"> (i) Commission decisions had not been implemented to maintain the Pension Fund continuously. (ii) Reviewing the benefits of the members of the Fund had not been done by evaluating actuarial valuation and amendments had not been done for the Pension System.