

Universities Provident Fund - 2018

1.1 Opinion

The audit of the financial statements of the Universities Provident Fund for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018. Comments and observations which I consider should be submitted to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Fund.

1.4 Auditor's Responsibility on the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund, and

whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing board of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc. -----	Non-compliance -----	Comments of the Management -----	Recommendation -----
Section 5 of the University Grants Commission Circular No. 155 of 02 February 1982.	Action had not been taken to recover the interest paid for the time delayed related to the releasing of the balance of the Provident Fund of the Employees whose service had been ended after serving in the higher educational institutions and the total interest value paid for the delayed period could not be identified.	It is not possible to determine that the reason for the delay on the errors of the officers, but, the delay might be due the time consumed for the administrative procedure (collection of past data). Accordingly, action is being taken to discuss this matter further and to provide a methodical solution.	In terms of the relevant Circular and in terms of Section 95 of the Act, action should be taken to identify the officers who were responsible for the delay and action should be taken to surcharge the interest for delay to the officers who are responsible for the delay.

1.7 Receivable and Payable Accounts

1.7.1 Payables

Audit Observation	Comments of the Management	Recommendation
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Even though the value of the Provident Fund benefits payable for the period of 2001 to 2018 as at 31 December in the year under review had become Rs.40,437,708, the Commission was unable to settle the amount.	Monetary benefits payable to the beneficiaries had not been paid as the details of their accounts related to the payment of benefits had not been received to the Provident Fund and replies had not been given for the reminders sent to the beneficiaries for obtaining particulars on accounts.	A systematic programme has to be established for updating the particulars of the beneficiaries and these amounts should be expeditiously settled.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.2,957,647,689 and the corresponding surplus in the preceding year amounted to Rs. 3,041,748,120. Therefore, a deterioration amounting to Rs. 84,100,431 in the financial result was observed. The major reason for the deterioration was the increase in the amount of taxes paid to the Government.

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2.2 Trend Analysis of Major Income and Expenditure items

When the investment income in the year under review amounting to Rs.3,652,205,620 is compared with the investment income of the preceding year amounting to Rs. 3,157,199,580, an increase of Rs. 495,006,040 or 15 per cent could be observed. Increase in the interest income related to the long-term and short-term investments was the major reason for this situation. Likely, an increase of Rs. 1,711,010 or 82 per cent could be observed when the operational expenditure of the year under review amounting to Rs. 3,788,347 is compared with the operational expenditure of the preceding year amounting to Rs. 2,077,337.

2.3 Ratio Analysis

The Current ratio of the Fund in the year under review was 16.2:1 and when it is compared with the current ratio of the preceding year, an increase of 52 per cent could be observed.