

Universities Provident Fund - 2017

The audit of Financial Statements of the Universities Provident 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 and Section 24 of the Universities Provident Fund Ordinance, No. 01 of 2015. 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.

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 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 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 Sri Lanka Public Sector Accounting Standards

Following non compliances were observed.

(a) Sri Lanka Public Sector Accounting Standard 01

- (i) The members' loan amount to be recoverable within next year included in the members' loan of Rs. 5,274,039,486 which was shown under non-current assets, had not been identified and shown under current assets in terms of paragraph 76 of the standard.
- (ii) The profit of Rs. 8,848,340 obtained from the sales of Treasury Bonds had been shown in the final accounts without revealing discounts and premium as per Clause 49 of the Standard which was adjusted relating to the profit earned from selling Treasury Bonds valued at Rs.1,739,700,000 in the year under review.

(b) Sri Lanka Public Sector Accounting Standard 02

Although the amount of Rs. 528,709,114 which is increase in the recoverable long-term loan balance due for the Provident Fund granted to members which was shown under non-current assets should be shown under the Investment activities in the cash flow statement in accordance with Article 25 (e) of the standards, the net amount of Rs.509,829,724 by deducting the decrease value of Rs. 18,879,390 from receivable loan installment, had been included in the change in work in progress in the cash flow statement.

2.2.2 Accounting Deficiencies

Following observations are made.

- (a) The service charge of Rs.171,810 which was paid for the period from January to 30 June 2018 for the future period relating to the service agreements for the supply of computer services, had been accounted as an expenditure of the year under review.
- (b) The bond income and income receivables amount had been overstated by Rs.75,801 due to interest income receivable on receipt of two Treasury Bonds relating to the year under review had been shown as Rs. 4,649,171 instead of showing as Rs. 4,573,370 in the accounts.
- (c) Even though the Fixed Deposit value of Rs. 5150 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. Accordingly, it was observed required adjustments had not been done in the cash flow statement.

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

According to the University Grants Commission Circular No. 155(5) of 02 February 1982 the details of the release of Provident Fund Balance of employees who were served and terminated the Service from Higher Educational Institutions should be submitted to the Secretary of the Commission within 02 months from the termination of the employee and if the submission had been delayed due to the delay of Higher Education Institutes and if employees have to pay interest in terms of Section 95 of the Universities Act No. 16 of 1978, such interest should be surcharged to the officer responsible. However, the delay period ranged from 4 months to 20 months, the interest paid on such late payment had not been recovered from the officers responsible in terms of the circulars.

2.4 Payable Accounts

There were 459 cheques valued at Rs. 35,544,619 relating to cancelled payments of Provident Fund benefits due to various reasons included in the cancelled cheque balance of Rs.36,216,547 shown in repayable under the current assets of the statement of financial positions. Action had not been taken to settle the balance amount to the beneficiaries after recovering the recoverable amount to the Government from that cheques of the Provident fund beneficiaries.

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. 3,041,807,362 comparing with the corresponding surplus of Rs. 2,792,617,408 for the preceding year thus indicating an increase of the financial results by Rs. 249,189,954 in the year under review as compared with the preceding year. Increase of the investment income by Rs. 306,753,732 had mainly attributed to the above improvement.

In analyzing financial results of the year under review and of 04 proceeding 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. 2,454,475,779 in the year 2013 was improved to Rs. 3,155,181,485 at the end of the year 2017.

4. Operational Review

Management Activities

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.

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
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(a) Maintaining the Cash Book in updating manner.	Cash book not updated daily.
(b) Accounts Payable	Action not taking to settle unclaimed balances.