

Universities Pension Fund – 2018

1.1 Opinion

The audit of the financial statements of the Universities Pension 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 the provisions in National Audit Act, No. 19 of 2018. My comments and observations which I consider should be reported to Parliament, appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2018 and 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 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 determines 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 Sub-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 Responsibilities for 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 audit 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 audit 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 audit 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 body 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 -----

The Fund is 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, Management Decisions etc. -----

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
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Section 97 of the Universities Act, No.16 of 1978	According to the Commission Circular No.747 of 10 June 1999, a pension scheme maintained by the University Grants Commission had been commenced. However, in terms of the Act, an Ordinance could have been formulated by the Commission for the regularization,	The Draft Pensions Ordinance had been sent to the University Grants Commission on 05 March 2019. Those revisions had been sent again to the Legal Draftsman’s Department on 01 April 2019 along with the observations of the Legal and Documentation Division and the Pensions Division of the University Grants	The Ordinance required for regularization, administration and operation of the Fund should be published without delay.

administration and Commission.
management of the Moreover, the
Pension Fund. Pensions Ordinance
Nevertheless, an will be published
Ordinance had not after obtaining final
been formulated and approval of the Legal
published even up to Draftsman's
31 May 2019, the Department.
date of Audit.

2. Financial Review

2.1 Financial Results

The operations of the year under review resulted in a surplus of Rs.775,591,633 as compared with the corresponding surplus of Rs.702,289,420 for the preceding year, thus observing an improvement of Rs.73,302,213 in the financial result. The increase in investment income had mainly resulted in this improvement.

2.2 Analysis of Tendencies in Main Items of Income and Expenditure

As compared with the investment income of Rs.733,205,736 of the preceding year , an increase of Rs.190,784,696 representing 26 per cent was observed in the investment income of Rs.923,990,432 for the year under review. Increase in the income from Treasury Bonds and interest on fixed deposits had been the main reason for this situation. Moreover, as compared with the expenditure of Rs.10,477,679 for the year under review, an increase of Rs.1,600,966 representing 18 per cent was observed in the expenditure of Rs.8,876,713 for the preceding year. The increase in the value of adjustments made relating to pensioners' fund accounts in the year under review had been the main reason therefor.

2.3 Analysis of Ratios

The current ratio for the year under review was 20.2:1 and an increase of 22 per cent was observed as compared with the preceding year.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) The number of members receiving pension after retirement from the service had increased from 172 to 279 from the year 2014 to the year 2018 and the value of pensions paid to them had increased from Rs.28 million to Rs.58 million. Accordingly, a tendency of a continuous increase in the amount incurred from the Fund for payment of pensions, was observed.	The number of pensioners retiring annually from the service of Universities and Higher Education Institutes is on the increase. As such, the pensions paid to them as well have increased annually.	An actuarial valuation on the members of the Fund should be carried out and adjustments to the Fund should be made according to the life expectancy of pension beneficiaries and thereby confirm the safety of the Fund.
(b) Even though an actuarial valuation of members of the Fund had been carried out about 04 years before for the future existence and safety of the Pensions Fund by spending a sum of Rs.365,000, adjustments which should be made to the Fund based thereon had not been made. As such, as compared with the year 2014, a	Evaluations are carried out about every once in 03 years through an Instructor for Actuarial Valuation. The Commission had decided that the Actuarial Valuation Report for the year ended 31.12.2017 should be prepared based on the data of 31.12.2018. Procurement activities are carried out therefor and the benefits of members are due to be reviewed by utilizing reports obtained from the said evaluation.	

balance had not been available in the individual accounts by the end of the year 2018. However, the number of members who are paid pensions from the Pensions Fund had increased from 33 to 60 and it was observed that the value of pensions paid to them had increased from Rs.4.4 million to Rs.9.1 million.