

## Universities Provident Fund - 2019

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### 1.1 **Opinion**

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The audit of the financial statements of Universities Provident Fund for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 and the National Audit Act No. 19 of 2018 read in conjunction with provision of Sub-Section 91 and under section 24 of University Provident Fund Rules (Amended) established under the section 18 of the Universities Act, No. 16 of 1978. My comments and observations which I consider should be report to Parliament according to the provisions in Article 154(6) 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 2019, 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 opinion.

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

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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 Responsibilities for the Audit of the Financial Statements

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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. 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

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### 1.5.1 Internal Control over the preparation of financial statements.

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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

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	<b>Reference to Laws, Rules, Regulations</b>	<b>Non-compliance</b>	<b>Management’s Comment</b>	<b>Recommendation</b>
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<b>(a)</b>	<b>University Act No. 16 of 1978</b>			
<b>(i)</b>	Section 93 (2)	If a contributor terminates employment before reaching retirement age, the full amount of the Provident Fund of employee's account balance and interest must be paid on that day. However, a lecturer at the University of Ruhuna was vacated the post on 10 November 1990, The release of the balance of Rs.130,742 on that day had been delayed for 336 months up to 28 February 2019, resulting in an interest of Rs.3,481,652 added.	According to the Commission Circular No. 155 dated 05.02.1982, Although the release papers of the provident fund should be sent to the University Grants Commission within 02 months of resignation, this lecturer's provident fund release papers were sent to the Commission 336 months after the suspension. Since then, steps have been taken to release provident funds and the interest is	The release of the balance of the fund should be done in accordance with the relevant section of the Act and the opportunity for the contributor to earn interest on the balance of the fund should be avoided, as it violates the provisions of the Act.

Accordingly, the balance had increased to Rs.3,612,394 by the date of release of the fund and a sum of Rs.3,541,910 had been paid to him after deducting the deductions due from him.

**(ii) Section 95**

The balance in the contributor's account should be paid within 03 months of the termination of the contributor's account. However, there was a delay of 1 month to 54 months in submitting the applications submitted by 30 terminated contributors to the relevant higher education institution and making payments and a total of Rs.6,112,678 had been paid as interest for the delay.

calculated based on the credit balance of the relevant member in his account. Accordingly, there is no loss to the fund.

Since payments are suspended from December to February each year for the preparation of final accounts, they have to be retained by the University Grants Commission during that period. Accordingly, it is clear that there has been no delay in the University Grants Commission.

According to the provisions of the Act, the balance of the contributor should be released within 03 months of the termination of the account of the contributor and steps should be taken to avoid interest payments on delays in the release of balances.

**(b) University Grants Commission Circular No. 155 dated 05 February 1982**

**(i)** Although the application for release of the balance of the terminated contributor's provident fund should be forwarded to the Secretary of the Commission within 02 months after submitting the application to the Institute of Higher Education, applications submitted to the Institute of Higher Education were delayed from 1 month to 24 months in submitting to the Secretary of the Commission.

It has taken more than two months for the universities to submit the relevant documents to the University Grants Commission for the release of provident funds. The reason given for this delay is that there has been a delay in obtaining information related to the provident fund release papers.

The circular should be followed and necessary steps should be taken to minimize delays.

<p>(ii) If interest has to pay to the contributor due to a delay of more than 2 months due to an error on the part of the institution in submitting the application from the higher education institution to the Secretary of the Commission, the interest should be surcharged to the relevant responsible officer. Although the interest has been calculated and paid up to one month before the date of payment to the contributor upon submission of the application, no action had been taken to identify the officials responsible for the delays and impose surcharges.</p>	<p>According to the Commission Circular No. 155 dated 05.02.1982, delayed interest recovery should be done by the concerned universities and higher education institutions from the relevant officials responsible for the delay in sending the fund release papers to the University Grants Commission. University Vice Chancellors are of the view that the delay is not due to the fault of the officials but the time taken to provide and collect information. Accordingly, steps are being taken to amend the relevant circular.</p>
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There is ample time to obtain information as the contributor will be informed 03 months before his retirement and action should be taken to avoid delays due to inefficiency of officers.

**2. Financial Review**  
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**2.1 Financial Result**  
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The operating result of the year under review amounted to a surplus of Rs.3,767,169,594 and the corresponding surplus in the preceding year amounted to Rs. 2,958,554,987. Therefore an improvement amounting to Rs. 808,614,607 of the financial result was observed. The main reason for the improvement was increase of the investment income.

**2.2 Trend Analysis of Major Income and Expenditure Items**  
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It was observed an increase of Rs. 740,110,899 or 20 per cent in the investment income of the year under review amounting to Rs. 4,392,692,549 when compared with the preceding year amounting to Rs. 3,652,581,650. This situation was mainly due to the increase in interest income on such investments due to the increase in debenture investments. Similarly, it was observed a decrease of Rs. 478,318 or 13 per cent in the operating expenses for the year under review amounting to Rs. 3,310,029 when compared with the preceding year operating expenses amounting to Rs. 3,788,346.

### **3. Performance**

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The value of the checks issued but cancelled due to non-claim was stated as Rs.44,855,762 under the current liabilities of the Financial Statement as at 31 December of the year under review. The Commission had failed to obtain the relevant information of the beneficiaries of the Provident Fund for the period from 2001 to 2019 and settle the amount due to them by the end of the year under review. Further, only Rs. 10,707 had been repaid in 2019 from last year's balances.