

Teachers' Widows' and Orphans' Pensions Fund – 2014

The audit of financial statements of the Teachers' Widows' and Orphans' Pensions Fund for the year ended 31 December 2014 comprising the balance sheet as at 31 December 2014 and the income and expenditure account 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(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 6(1) of the Regulations enacted in terms of Sections 5 and 9 of the School Teachers' Pensions Act, No. 44 of 1953 (Chapter 432). My comments and observations on the aforesaid financial statements appear in this report.

1.2 Management's Responsibility for 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 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.

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 Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2:2 of this report, the financial statements do not give a true and fair view of the financial position of the Teachers' Widows' and Orphans' Pensions Fund as at 31 December 2014 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) As the sum of Rs. 37,412,681 credited to Teachers' Pensions Fund had been accounted as income of the Teachers' Widows' and Orphans' Pensions Fund, the surplus of the year had been overstated in the accounts by the same amount.
- (b) Contributions from North Western, Southern, and Eastern provinces had not been credited to the Fund. Contributions further receivable had not been identified by computing the total contributions from those provinces for the year, and those values had not been accounted.
- (c) Action had not been taken to identify and account the receivable contributions for 05 months of the year under review with regard to 2 semi-private schools which transferred contributions to the Fund through cheques.
- (d) The tax expenditure of Rs. 3,091,571 over calculated for the preceding year had been taken into the income of the year under review instead of being adjusted retrospectively.
- (e) Teachers' widows' and orphans' pensions are paid under the Appropriation Head 253 of the Director General of Pensions. Action had not been taken to identify and account such expenditure as expenditure of the Fund.

2.3 Non-compliance with Laws, Rules and Regulations

In accordance with the Directive No. 9(a) imposed in pursuance of School Teachers' Pensions Act No. 44 of 1953, registers should be maintained consisting of information on each contributor and their families, and all contributions paid to the Fund. However, no such registers had been maintained.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial result for the year under review amounted to a surplus of Rs. 120,273,433 as compared with the corresponding surplus of

Rs. 137,046,345 for the preceding year. As compared with the preceding year, a deterioration of Rs.16,772,912 in the financial result had been indicated. The deterioration had mainly been caused by the decrease in interest income by Rs. 5,049,348 or 8 per cent and the receipt of contributions by Rs. 15,139,795 or 16 per cent, despite the increase in refunding the contributions by Rs. 887,033 or 11 per cent.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The Fund did not have a methodology in order to ensure the correctness of information on *Piriwenas* and semi-private schools from which, contributions should be remitted, and the accuracy of monthly contributions received.
- (b) Information such as the number of members of the Fund, number of persons who obtained membership during the year under review and the number of members who left the membership had not been maintained.
- (c) The monthly receipts of contributions ranged between Rs. 5 million – 10.8 million and fluctuations were observed in the receipt of contributions for each month. The Fund did not have a mechanism to compute the contribution to be received monthly.
- (d) Even though the Fund had received an interest income of Rs. 51.9 million during the year under review, any amount out of that income had not been used to pay the pensions of the Fund. A sum of Rs. 8.6 million had been spent to refund the contributions from the unmarried contributors of the Fund and the balance amounting to Rs. 43.3 million had been invested.

4.2 Transactions of Contentious Nature

Although a fund should be established with contributions from teachers' widows' and orphans' pensions should be paid from that fund, objectives of establishing this fund had not been accomplished, as the said expenses had been incurred by the budget provisions under Head of Expenditure 253. Hence, it was observed that maintaining this fund was not useless.

5. Systems and Controls

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

- (a) Accounting
- (b) Management of pensions systems
- (c) Investments