

Teachers' Widows' and Orphans' Pensions Fund - 2015.

The audit of financial statements of the Teachers' Widows' and Orphans' Pensions Fund for the year ended 31 December 2015 comprising the balance sheet as at 31 December 2015 and the income expenditure account and significant accounting policies for the year then ended and a summary of 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 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 these financial statements appear in this report.

1.2 Management's Responsibility 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).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the balance sheet, income and expenditure account.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

Following observations are made.

- (a) Contributions in North Western, Southern , Eastern , North Central , Uva and Northern provinces had not been credited to the Fund and those had not been identified and accounted as receivable contributions.
- (b) Teachers' Widows' and Orphans' Pensions are paid under the Expenditure Head of the Department of Pensions. Action had not been taken to identify the expenditure and account as receipts and payments of the Fund .

2.2.2 Lack of Evidence for Audit

Evidence which could be specifically identified whether cash received from Teachers' widows', widowers' and orphans' contributions or contributory pension amounting to Rs.46,826,453 credited to the Account of the Fund in the year 2015 was not made available for audit.

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

Following observations are made.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
-----	-----
(a) Order No 9(a) enacted in terms of School Teachers Pensions Act No 44 of 1953	Although it is required to maintain registers to record information on contributions of each contributor, all contributions paid by the Government to the Fund and the amount payable on the death of a Contributor, any such registers had not been maintained.
(b) Paragraph 04.1 (a) of Public Finance Circular No PF/423 dated 22 December 2006.	The Annual Budget had not been approved by the Minister in charge of the subject.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 205	Even though Registers of Refunds from Revenue should be maintained under the safety to prevent a double refund from revenue, a Register of Refunds from the contributions had not been maintained accordingly.

3. Financial Review.

3.1 Financial Results

According to the financial statements presented, the financial result for the year under review amounted to a surplus of Rs. 89,644,498 as compared with the corresponding surplus of Rs. 120,273,433 for the preceding year. As compared with the preceding year, a deterioration of

Rs. 30,628,935 in the financial results had been observed. Even though the refund of contributions during the year under review had decreased by Rs.4,997,283 or 58 per cent the decrease of the receipt of contributions by a sum of Rs.26,817,769 or 35 per cent and the decrease of the interest income by a sum of Rs.7,224,896 or 14 per cent had mainly attributed to the above deterioration. However, the said financial result would be changed on the accounting deficiencies mentioned in paragraph 2.2.1 of this report.

4. **Operating Review**

4.1 **Performance**

In terms of the School Teachers Pensions Act, No.44 of 1953, payment of teachers widows and orphans' pensions should be made by establishing a fund by the Teachers' Widows Orphans' Pensions contributions. However, the objective of the establishment of this Fund had not been fulfilled due to the aforesaid expenditure had been incurred under the provisions of the budget of the Expenditure Head of the Department of Pensions.

4.2 **Activities of the Management**

The following observations are made.

- (a) The information such as the cash receivable, cash received and outstanding to the Fund could not be revealed to audit due to failure in maintaining a schedule, including the number of members of the Fund, number of person who obtained new memberships during the year under review, number of members who left the membership and the name, school of the members etc.
- (b) Contributions receivable from 70 schools had not been identified and accounted.
- (c) Even though, in refunding the contributions, action should be taken to pay the money after checking the history sheet to ensure the money charged from the contributor, a methodology had not been established to examine whether the said money was received to the Fund accurately.

5. **Accountability and Good Governance**

5.1 **Budgetary Control**

The following observations are made.

- (a) The expenditure of the Teachers' widows'/widowers and orphans' pensions which is the main operating activity of the Fund, had not been included in the budget.
- (b) Variances of 44 per cent, 52 per cent and 29 per cent were observed between the budgeted value and the actual value of the items of receiving, refunding taxes based on investments of contributions of the Fund respectively, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.2 **Internal Audit**

An internal audit in respect of the functions of the Fund had not been carried out during the year under review and preceding years.

6. **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.

	Areas of Systems and Controls	Observation
	-----	-----
(a)	Accounting	Income and expenditure had not been brought to account so as to reflect the operation of the Fund.
(b)	Maintenance of the individual accounts of the members.	Failure to maintain the individual accounts of the members.
(c)	Management of Contributions	Failure to account the contributions of the said Fund by identifying separately the contributions of the Teachers' Pensions Fund and the Teachers' Widows' and Orphans' Pensions Fund .