

Teachers' Widows' and Orphans' Pensions Fund – 2016

The audit of financial statements of the Teachers' Widows' and Orphans' Pensions Fund for the year ended 31 December 2016 comprising the balance sheet as at 31 December 2016 and the income and expenditure account, cash flow statement 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). 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 2016 and its financial performance and its 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 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.
- (c) A sum of Rs.58,842,224 had been remitted to the Teachers' Widows' and Orphans' Pensions Fund by the Ministry of Education in which 12 per cent each of 6 per cent of the basic salary to the Pensions Contribution Fund and the Teachers' Widows' and Orphans' Pensions Fund from the teachers of the Piriwenas and semi-private schools. Accordingly, having being included a sum of Rs.29,421,112 charged for the Teachers' Pensions Fund which is not belonging to this Fund in the receipt of the contributions of the Teachers' Widows' and Orphans' Fund, the receipts of contributions had been over stated by the same amount.

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

Following non-compliances with Laws, Rules, and Regulations were observed in audit.

| Reference to Laws, Rules, Regulations | Non-compliance |
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| ----- | ----- |
| (a) Order No 9(a) enacted in terms of School Teachers Pensions Act No. 44 of 1953 | A register to record information on contributions of each contributor had not been maintained in terms of the Order. |
| (b) Paragraph 4.1 (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. |

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.102,956,197 as compared with the corresponding surplus of Rs.89,644,498 for the preceding year. As compared with the preceding year, an improvement of Rs.13,311,699 in the financial results had been observed. The refund of contributions during the year under review had decreased by Rs.1,173,160 or 32 per cent and the increase of the interest income by a sum of Rs. 2,671,525 or 6 per cent and receipt of contributions by a sum of Rs. 11,069,424 or 22 per cent had mainly attributed to the above improvement of the surplus . However, it could not be ruled out in audit that 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) The information such as the number of applications received for that Division as the monthly receipts of contributions for each month as able to evaluate the performance of the methodology to the payment of the contributions, the number of applications paid and balance in hand had not been maintained.
- (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 35 per cent, 67 per cent and 59 per cent were observed between the budgeted value and the actual value of the items of receiving, refunding and paying 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 terms of Financial Regulation 133 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka had not been carried out.

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. Income and expenditure had not been accounted as to show the performance of the Fund and special attention is needed in respect of the accounting area of control as the individual accounts of the members had not been maintained.