

Teachers' Widows' and Orphans' Pension Fund - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Teachers' Widows' and Orphans' Pension Fund for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and the income and expenditure account and notes to financial statements for the year then ended 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 provisions of the National Audit Act, No. 19 of 2018 and Section 6(1) of the regulations imposed through Sections 05 and 09 of the School Teachers Pension Ordinance, No. 44 of 1953. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 intend 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 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 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 Audit Observations on the Preparation of Financial Statements

1.5.1 Accounting Policies

| Audit Observation | Comment of the Management | Recommendation |
|---|--|---|
| <p>The Fund stated in the financial statements that accounts were prepared based on accrual basis in terms of Sri Lanka Public Sector Accounting Standard 01, but contributions totalling Rs. 1,631,064 received during 1988-2019 relating to 03 assisted schools, had been shown in the income and expenditure account as contributions of the year. A sum totalling Rs. 1,735,673 comprising a sum of Rs.1,552,883 received</p> | <p>Errors occurred in paying salaries are corrected and due contributions to the W&OP are remitted later. The officers of our Department lack a proper awareness of those values. As such, those values were brought to accounts as the income of the current year itself.</p> | <p>Accrual accounting should be done in accordance with Sri Lanka Public Sector Accounting Standard 01.</p> |

form an assisted school in the year 2021 with respect to the prior years, and contributions amounting to Rs. 182,790 further receivable relating to the preceding years, had not been shown in the financial statements of the year under review as receivable contributions.

1.6 Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following observations are made.

| Reference to Laws, Rules, and Regulations, etc. | Non-compliance | Comment of the Management | Recommendation |
|---|--|--|---|
| School Teachers Pension Act, No. 44 of 1953. | | | |
| a) Directive, No. 9(a). | Registers containing information such as those qualified to receive aid and beneficiaries whom monies had been paid to, were not maintained. | Cooperation of the teachers of <i>Pirivena</i> and assisted schools is necessary to create and maintain a database. | It is the responsibility of the management to properly maintain a database on the contributors. |
| b) Directive, No. 04. | Contributions to the Teachers' Widows' and Orphans' Pension Fund should be used to establish a fund and widows' and orphans' pension should be paid from that fund. However, a separate bank account had not been maintained in favor of the Fund for receiving contributions and making payments; instead, contributions had been credited to the bank account of the Director General of | A bank account is not being separately maintained for the Fund, but a cash book is used to record receipts and payments. | Provisions of the Act should be followed. |

Pensions whilst the said expenses had been incurred under the head of expenditure of the Department of Pensions.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review was a surplus of Rs.324,414,589 as compared with the corresponding surplus of Rs.224,019,899 for the preceding year, thus observing an improvement of Rs.100,394,690 in the financial result of the year under review. This improvement had mainly been attributed by the increase in the receipt of contributions by a sum of Rs.130,567,450 in the year under review.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

| Audit Observation ----- | Comment of the Management ----- | Recommendation ----- |
|---|--|--|
| a) It was found in an audit test check conducted on an assisted school obtaining membership to the Fund that membership numbers had not been issued to the contributors despite them paying contributions to the W&OP Fund. | The contributions division is not responsible for issuing membership numbers, and it is the responsibility of the relevant officer and the institution where he is employed at. | A proper mechanism should be put in place to issue membership numbers to the contributors. |
| b) As the Fund does not possess an information system containing data on the receipt of contributions from the members, payments are made by identifying the amount paid through the history sheets. However, it could not be verified as to whether the same amount had been received by the Fund. | Once it is certified by the Head of the institution that the contributions to the W&OP Fund had been remitted to the Department, payments are made after being compared with the history sheets. | A mechanism should be prepared to verify through the Department of Pensions that the Fund had actually received the contributions. |