

Teachers' Widows' and Orphans' Pension Fund - 2021

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 2021 comprising the balance sheet as at 31 December 2021 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. 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 2021, and its financial performance 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 (SLAuSs). My responsibilities under those Auditing Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this 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 summary 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 taken by users 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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 statement or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtain 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 event 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 Preparation of Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

Execute transactions with general and specific authority of management, record transactions and maintain accounting for assets as required to prepare financial statements in accordance with applicable reporting standards, access assets only with general and specific authority of management, for recorded assets comparison of the accounting liability with the existing assets at reasonable periods and it is necessary for the organization to maintain a "well-designed" internal accounting control system sufficient to obtain reasonable assurance for taking appropriate action against changes, if any.

1.5.2 Accounting Deficiencies

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
(a) A sum of Rs.2,904,049 received on 25 June 2021 as contributions for the month of April 2021 from the Colombo Education Zonal Office had been omitted from the accounts of the year.	Agreed. The amount of Rs.2,904,049.14 received on 25 June 2021 from the Colombo Education Zonal Office for the month of April 2021 has been mistakenly credited to income under the Head 20.04.02.00 (Provincial Councils) as PIV No. 11/710 under the Western Province. In the year 2022, it had been recorded to correct the mistake.	Revenue should be recognized and accounted accurately.

- (b) Although the contributions of Rs.20,933,783 related to the previous year had been received in the year under review, a sum of Rs.1,864,620 had been accounted as contribution received for the year under review due to the receivable balance related to the previous year was Rs.19,069,163 in adjusting the final account.
- One check will be sent to us as per the respective month for the Widow and Orphan contribution deducted from the teachers working in relation to this account. Although the contributions sent in this way are considered as the contribution related to the current year, the arrears of widows and orphans contribution identified in the payment of salaries will be remitted to us later. As the Department officials cannot practically get a specific understanding of those values and the correct time intervals, the arrears related to the previous years are sent in this way, accounted as income in the current financial year. Only outstanding contributions recognized are accounted on an accrued basis as receivable contributions.
- Accounting should be done on accrued basis as per Public Sector Accounting Standard No. 01.
- (c) Although the contributions receivable as at 31 December of the year under review should have been Rs.6,636,632 , the contributions and contributions receivable were understated by Rs.281,999 due to accounting of income receivable as Rs.6,354,633 in the financial statements.
- One check will be sent to us for the widow and orphan contributions collected in the monthly salary payment to this account according to the relevant month. Although the contributions sent are considered as the contributions for the current year, errors in the payment of salaries are corrected and the outstanding widows and orphans money of the previous years will be remitted to us later. As the Department officials cannot practically get a specific understanding of those values and the correct time intervals, the arrears related to the previous years are sent in this way, accounted as income in the current financial year. Only outstanding contributions recognized are accounted on an accrued basis as contributions receivable.
- Accounting should be done on accrued basis as per Public Sector Accounting Standard No. 01.

1.6 Non-compliance with Laws, Rules and Regulations

The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comment of the Management	Recommendation
(a) The Order No. 04 of the School Teachers' Pension Act No. 44 of 1953.	A Fund should be created from the contributions of teachers' widows and orphans to pay the pensions of teachers' widows and orphans. However, a separate bank account had not been maintained for the Fund for collection and payment of contributions. The contributions were collected in the bank account of the Director General of Pensions and payments were made under the Expenditure Head of the Pension Department.	Agreed.	Action should be taken in according to the directions of the Act.
(b) The Order No. 9(a) of the School Teachers' Pension Act No. 44 of 1953.	No register was maintained containing the details of each contributor who was eligible for contribution and existing contributors. Further, only 06 out of 9 Provinces had received contributions to the Fund and the reasons for non-receipt of contributions from other Provinces were not revealed.	The Ministry of Education, as the authority to collect the revenue related to the Fund, sending us only the values credited from the Provinces in relation to each month through credit notices, and will not send details about those collections of the contributions. I observe that maintaining a Single Account System is not practical. The letter No. 313/3/2019 dated 27.06.2019 was forwarded to the Ministry of Education	Action should be taken to maintain a formal information system about the payers of contributions.

regarding the crediting of contributions only from few provinces. Later, the Ministry of Education informed all the Provincial Directors of Education about this with copies to me as well.

2. Financial review

2.1 Financial results

The operating result for the year under review was a surplus of Rs.295,472,900 and correspondingly surplus of the previous year was Rs.324,414,589. Accordingly, a deterioration of Rs.28,941,689 was observed in the financial result. This deterioration was mainly due to the increase in refund of contributions by Rs.7,658,209 and the decrease in interest income for investments by Rs.39,669,279.

3. Operating Review

3.1 Operational Inefficiencies

Audit Observation -----	Comment of the Management -----	Recommendation -----
<p>The Fund couldn't be identified the details about actual annual dues, receipts and arrears correctly and separately due to non-maintenance of a register including the number of members of the Fund, number of new members who obtained the membership during the year under review, the number who left the membership of the Fund, the name of the members and the school etc.</p>	<p>The support of Piriven and Aided schools is also essential for creating and improving a data base that includes basic information about the personal name of the teachers in the Piriven and Aided schools, their schools or Piriven, the provinces they belong to, the number of members who had taken membership of the Fund and the number who had left from the membership of the Fund, etc. But in the payment of pension to these teachers, payments are made only after calculating the arrears of widows and orphans contributions and recovering the arrears.</p>	<p>An updated register should be maintained about the members of the Fund.</p>