

Teachers' Widows' and Orphans' Pensions Fund – 2013

The audit of financial statements of the Teachers' Widows' and Orphans' Pensions Fund for the year ended 31 December 2013 comprising the balance sheet as at 31 December 2013 and the income and expenditure account 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(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 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 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 2013 and its financial performance 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 receivable from the Ministry of Education amounting to Rs. 87,847,467 had been included in the Receipts and Payments Account as an amount received instead of being accounted as an amount receivable.
- b) Contributions to the fund from teachers of the semi-private schools and *piriwenas* in North Western, Southern and Eastern provinces had not been collected and accounted.
- c) Teachers' Widows' and Orphans' Pensions are paid under the Appropriation Head 253 of the Director General of Pensions. Actions had not been taken to identify and account the expenditure as expenditure of the Fund.

2.2.2 Non-availability of Evidence for Audit

As a separate bank account for the fund and a cash book for recording the relevant transactions had not been maintained, it could not be satisfied in audit with the cash received to the Fund and paid from the Fund during the year under review.

2.3 Non-compliance with Laws, Rules, and Regulations

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

Reference to Laws, Rules,
Regulations, etc.

Non-compliance

- a. Directive 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 contribution 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. As individual accounts had not been maintained, it was not possible to specifically identify the amounts due to each contributor and the amounts and interests paid by the contributor.

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 results for the year under review amounted to a surplus of Rs. 137,046,345 as compared with the corresponding surplus of Rs. 119,639,248 for the preceding year. As compared with the preceding year, an improvement of Rs.17,407,097 in the financial results had been indicated

3.2 Analytical Financial Review

Refund of contributions during the year under review had decreased by Rs.970, 313 or 11 per cent, the interest income and receipts of contributions had increased by Rs. 12,805,838 or 29 per cent and Rs. 5,151,035 or 6 per cent respectively had been the main reasons for the improvement of the surplus.

4. Operating Review

4.1 Operating 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 to 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 from Rs. 2.6 – 14.1 million and fluctuations were observed in the receipt of each month contributions. The Fund did not have a mechanism to compute has much contributions to be received monthly.
- d) Even though the Fund had received an interest income of Rs. 56.9 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. 7.7 million had been spent to refund the contributions of the Fund and the balance amounting to Rs. 49.2 million had been invested.
- e) No action had been taken to amend the orders as appropriate enacted by the School Teachers Pension Act, No 44 of 1953 as instructed by the Treasury.

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) Abatement lists
- c) Investments
- d) Individual Accounts of Members