

Teachers' Widows' and Orphans' Pensions Fund – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Teachers' Widows' and Orphans' Pensions Fund for the year ended 31 December 2018 comprising the balance sheet as at 31 December 2018 and the income and expenditure account and cash flow statement for the year then ended, and notes to the financial statements, 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 reported to 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 2018, and of 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 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 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 qualified 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 intends 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 audit 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, misrepresentations, 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 Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

The Fund is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Lack of Documentary Evidence for Audit

Item	Amount	Evidence not made available to Audit	Comments of the Management	Recommendation
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	Rs.			
Receipt of Contributions	66,918,348	Contribution for widows and orphans from teachers of Pirivenas and private/assisted schools and as they are not fully accepted as public officers, contributions at a rate of 6 per cent from their monthly salary on behalf of their pensions, should be	A letter for explanation on this matter and for getting down a classification of the contribution, has been forwarded to the Ministry of Education.	The sum which has been credited through monthly accounts summaries should be brought to account by identifying the contribution for which they were contributed.

separately sent to the Department of Pensions. However, the contribution for which the sum of Rs.66,918,348 credited to the Teachers' Widows' and Orphans' Pensions Fund in the year 2018 for 03 provinces by the Ministry of Education through accounts summaries, could not be exactly identified.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
School Teachers' Pensions Act, No.44 of 1953 Order No. 9 (a)	Registers including information on contributors had not been maintained.	Maintenance of an individual accounts system is not practicable.	Registers including information on contributors should be maintained.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review had been a surplus of Rs.148,370,923 as compared with the corresponding surplus of Rs.131,957,353 for the preceding year, thus observing an improvement of Rs.16,413,570 in the financial result of the year under review as compared with the preceding year. However, payments of teachers' widows' and orphans' pensions had been made from the account of the Director General of Pensions and as such payment of pensions had not been deducted, thus resulting in the said surplus. Further, the increase in the interest income by Rs. 14,568,648 and in receipts of contributions by Rs.1,254,423 in the year under review, had been attributed to the said improvement.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) Updated schedules on members of the Fund had not been maintained and as such, information on outstanding money receivable to the Fund could not be revealed in Audit.	As there are a large number of teachers in schools, a separate staff is required therefor.	An updated schedule on members of the Fund should be maintained.
(b) In repaying contributions, action had been taken to pay the money recovered from the contributor by checking the history sheet. However, no system had been established to confirm whether those moneys had been accurately received to the Fund.	After certifying through the Head of the Establishment that the widows' and orphans' contributions had been remitted to the Department, payments are made by comparing with the history sheet.	A system should be introduced to confirm through the Department of Pensions whether the contributions have been exactly received to the Fund.
(c) In terms of Order No. 04 of the School Teachers' Pensions Act, No 44 of 1953, a Fund should be established from teachers' widows' and orphans' contribution and thereby teachers' widows' and orphans' pensions should be paid. However, a separate bank account had not been operated on behalf of the Fund for collection of contributions and making payments.	Even though the existence of such fund was essential by the year 1953, according to provisions of current Fiscal Policies, this Fund is not essential.	Action should be taken in terms of Orders of the Pensions Act, No.44 of 1953 or action should be taken to reorganise or liquidate the Fund in compliance with current policies and provisions thereof.

Moreover, contributions had been collected to the bank account of the Director General of Pensions and said expenses had been paid under the Expenditure Head of the Department of Pensions. As such, the objective of establishment of the Fund had not been achieved.