

Head 253 – Department of Pensions

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Department of Pensions for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and cash flow statement for the year then ended 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 provisions of the National Audit Act, No. 19 of 2018. In terms of Sub-section 11(1) of the National Audit Act, No.19 of 2018, the summary report including my comments and observations on the financial statements of the Department of Pensions was issued to the Accounting Officer on 31 July 2019. In terms of Sub-section 11(2) of the National Audit Act, the Annual Detailed Management Audit Report relating to the Department was issued on 20 June 2019 to the Accounting Officer. This report which should be read in conjunction with Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka is submitted to Parliament in terms of Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Department of Pensions as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted accounting Principles.

1.2 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, under those standards is further described in the Auditor's Responsibility 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 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Financial Statement

The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-section 16 (1) of the National Audit Act, No. 19 of 2018, the Department 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 Department.

In terms of Sub-section 38(1) (c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department and carry out periodic reviews to monitor the effectiveness of such system and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibility for the Audit of 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 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 Department's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- 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.

I communicate with the Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5. Report on Other Legal Requirements

As required by Sub-section 6 (d) and Section 38 of the National Audit Act, No.19 of 2018, I state the followings:

As there was no requirement of preparation of financial statements for the preceding year, the financial statements of the year under review cannot be compared with the preceding year. As such, recommendations on financial statements for the preceding year as well had not been presented by this report.

1.6 Comments on Financial Statements

1.6.1 Statement Financial Performance

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) The revenue collected under Revenue Head - 20.04.01.00 for the year 2018 had been understated by Rs. 870,380 in the financial statements.	Revenue in the Treasury printouts should be correctly indicated in the financial statements.	The final Treasury Accounting Statement for the year 2018 had been issued on 12.02.2019 and the Treasury statement dated 05.02.2019 had been based in the preparation of final accounts and as such, gross revenue for the Central Government had decreased by Rs.870,380.
(b) Even though the expenditure incurred on behalf of the Department by other departments had been Rs. 34,533,914,542 , according to the financial statements, the said expenditure had been Rs.33,407,328,729, thus understating the said expenditure by Rs.1,126,585,813 in accounts.	The annual expenditure should be brought to account correctly by including the expenditure incurred for the Department by other departments and ministries.	It is accepted. As unpaid moneys relating to the current year and preceding years are sent to the Department of Pensions by the Divisional Secretariats, it is difficult to determine the correct value for the year. Measures have been taken to correct this since the year 2019 in consultation with the Treasury Operations Department.

1.6.2 Statement of Financial Position

The following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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Property, plant and equipment had been understated by Rs. 494,744 in account of the financial statements.	It should be brought to account at the correct value in the financial statements.	It is accepted. Even though the purchase of assets valued at Rs.494,197.00 included under recurrent expenditure in the year 2017, had been included in the Register of Fixed Assets, it had not been included in the statement of non-financial assets of the year 2018.

1.6.3 Reconciliation Statement on Advances to Public Officers Accounts

The following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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According to the Reconciliation Statement of the Advance to Public Officers Account made available to Audit, the outstanding loan balances recoverable from officers who had been interdicted, had vacated the post and transferred as at 31 December 2018, totalled Rs.3,290,000. Out of that, the outstanding loan balance recoverable from 14 officers over a period of 05 years, had been Rs.564,841.	Action should be taken in terms of Financial Regulations.	Recovery of loan balances had been delayed due to reasons such as the lack of information on current service stations of officers, inadequate information for briefing the officer and returning of letters which were sent as to settle the loan balance and it has been referred to the Attorney General to take legal action on certain loan balances.

1.6.4 Lack of Evidence for Audit

The following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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Evidence that debit notes had been issued for repayments from revenue, amounting to Rs.588,412, had not been made available to Audit.	Debit notes should be get down in terms of circulars.	It is briefed in writing about sending of debit notes at the instance of recommending the repayment from revenue and as all information relating to debiting, are included therein in the recommendation of repayment from revenue, it is not reminded.

1.6.3 Responsibility of the Accounting Officer

Even though the Accounting Officer shall ensure on following matters according to provisions in Section 38 of the National Audit Act, No.19 of 2018, it had not been so done.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) The Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out. Even though those reviews should be carried out in writing and copies of the same shall be made available to the Auditor General, statements that such a review had been carried out, had not been made available to Audit.	Action should be taken in terms of provisions in Section 38 of the National Audit Act, No.19 of 2018.	Even though necessary changes in internal administrative methods had been made by reviewing the process of payment of pensions, it is accepted that those particulars had not been informed in writing.
(b) The Accounting Officer shall ensure that all audit queries be answered within the specified time as required by the Auditor General. However, even though 08 queries had been issued for the year 2018, a period	-Do-	It is accepted that there is a delay in replying for audit queries as replies and necessary explanations should be obtained from

from 03 months to 11 months had elapsed as at 30 September 2019 and replies therefor had not been made.

District Secretariats, Divisional Secretariats and the Department of Pensions and other related Government institutions.

1.6.6 Non-compliance with Laws, Rules and Regulations

The following observations are made.

Observation	Recommendation	Comments of the Accounting Officer
----- Reference to Laws, Rules and Regulations -----	----- Non-compliance -----	
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 170 (2) (a), (b), (c), (d), (e)	A sum of Rs.5,991,000 received to the Department from 15 private institutions for the function held on behalf of the retirement day of the year 2018, had been retained in the deposit account even by 08 July 2019.	Action should be taken in terms of Financial Regulations on grants received from external institutions.
(b) Circulars of the Director General of Pensions		A sum of Rs.2,365,000 had been obtained for 09 national festivals through sponsorships made by institutions of the private sector, which are collaborated with the Department of Pensions and it is due to be utilized the remaining money for achieving objectives of the Department.
(i) Circular (Amendment) No.01/2011 of 07 April 2014	A well-managed Control Account should be maintained by every Divisional Secretariat for keeping a formalized pension payment system. However, according to the audit test check, such Control Accounts had not been maintained by 05 Divisional Secretariats.	Every Divisional Secretariat should maintain a well-managed Control Account and thereby ensure the accuracy of expenditure on pensions.
		As all payments of pensions and the process of revision is carried out by the centralized Data Base, there is no difficulty to maintain a separate Control Account. Preparation of the Control Account by identifying the said changes, is the

			responsibility of the Divisional Secretary.
(ii)	Circular No.06/2013 of 03 December 2013	Even though the unpaid pensions should be sent to the Department of Pensions in the following month to the month in which pensions should be paid, moneys totalling Rs.4,567,674 in 04 Divisional Secretariats had been retained in General Deposit Accounts for a period from 02 months to 12 months and afterwards, sent to the Department.	An arrangement should be made to get down the unpaid pensions to the Department of Pensions speedily and to monitor them.
			Even though instructions had been given to send unpaid pensions to the Department of Pensions without retaining in the Deposit Account, contrary to those instructions, there is a tendency of utilizing those moneys for office expenses.
(iii)	Circular No.3/2016 of 27 April 2016 and Public Administration Circular No.5/2015 of 11 February 2015	Even though the monthly inter-allowance of Rs.3,500 is not entitled to pensioners who retire after 01.01.2016, as revealed at the audit test check, a sum of Rs.261,991 had been paid as the said inter-allowance to three retired officers of the Warakapola Divisional Secretariat contrary to those circulars.	Action should be taken in terms of Financial Regulations 103 and 104.
			Replies had not been made.
(iv)	Circular (Revision II)No.9/2008 of 17 July 2018	The payment of disability pension made for pensioners who had not completed the service duration, had been discontinued and the disability pension with basic pension paid under category 59 should be combined and indicated in the database. However, it was observed that pensions had not been so combined in Warakapola and Alawwa Divisional Secretariats.	Action should be taken in terms of circulars.
			In commencing army service pension to officers who were disabled during operations, with the service period of less than 10/12 years, under category 59, persons to whom disability pensions had been awarded or not awarded under Code No.6/42, cannot be identified from their National Identity Card number or bank account number. Action is being taken to identify such

instances.

No allowance whatsoever is paid for the service pension, paid under Code 59 and it has been converted into Code No.69 when reaching the 55 years of age.

(c) Gazette Extraordinary Notification No.1719/3 of 15 August 2011	Those who have not disabled from birth shall be referred to a Medical Board once in every 05 years. However, as revealed in the audit test check, such persons have not been referred to Medical Boards in any instance in 05 Divisional Secretariats.	Action should be taken to make payments by confirming their disability referring to a Medical Board once in every 05 years.	The Divisional Secretaries have informed that it is noted down to take necessary action to obtain information on pensioners who received disability pension, but not disabled from birth through the Format අබ 03 from Grama Niladhari and referred to the Medical Board.
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1.67 Transactions of Fraudulent Nature

The following observations are made.

Audit Observation

(a) The pension of retired officer who was receiving 02 pensions as civil and widows' at the time of her death had been credited to her bank account up to 55 months from the date of death. Out of the amount so credited, a sum of Rs.2,696,303 had been withdrawn by using a ATM card by her son. Even though a sum of Rs.308,052 out of the said amount, had been paid to the Department by him, the remaining amount of Rs.2,388,251 had not been recovered

Recommendation

Necessary legal action should be taken in terms of Financial Regulations from 101 to 112 and relevant pension circulars to recover the money obtained fraudulently.

Comments of the Accounting Officer

This overpayment has been made due to failure in reporting this death to the office. This death was revealed by summoning certificate of residency of pensioners and out of the money of Rs.2,696,303 overpaid, a sum of Rs.308,052, has been paid by the person who had

even by 30 June 2019.

- (b) The pension of Rs.582,423 being received at the time of death by an officer who had deceased on 07 November 2013, had been credited to the bank account of the pensioner for a period of 29 months from the date of her death. Moneys had been withdrawn from this account by using a ATM card from time to time and a sum of Rs.581,916 so withdrawn had not been recovered even by 30 June 2019.
- Necessary legal action should be taken in terms of relevant pension circulars to recover the money obtained fraudulently.
- It could be revealed through calling for certificates of residency of the year 2016 that the said overpayments had been fraudulently obtained. It could not be revealed the person who had committed this fraud. Further inquiries on this fraud have been delayed due to failure in providing relevant A.T.M. camera images by the bank. Moreover, The Divisional Secretary has informed that it has been decided to take legal action in the future.
- (c) An officer had obtained two pensions as temporary and permanent by 02 Divisional Secretariats for a period of 20 years from January 1991 to February 2016. The excess amount so obtained by one Divisional Secretariat had been Rs.1,872,387 and even though the payment of pension had been discontinued from 10 February 2016, action had not been taken to recover money overpaid.
- Necessary legal action should be taken in terms of relevant pensions circulars to recover the money obtained fraudulently and to fix the officers responsible therefor.
- The case is on trial at the court according to a complaint made in respect of this fraud of pensions, under the Office of the Senior Superintendent of Police, Gamapaha Division. However, the legal payment of pensions of this pensioner has been discontinued by the Mahara Divisional Secretariat.
- (d) A sum of Rs.1,562,470 had been fraudulently obtained as the pension of the deceased mother by her daughter for a period of 86 months from the date of mother's death by applying National Identity Card Number of daughter instead of National Identity Card Number of pensioner in the pension Data Base. Nevertheless, action had not been taken
- Necessary legal action should be taken in terms of relevant pensions circulars to recover the money obtained fraudulently.
- It has been informed by a letter addressed to the District Secretary by the Director General of Pensions, to take legal action by conducting an inquiry and issue a report thereon in terms of the Financial Regulation 104.

recover the said overpaid amount.

2. Financial Review

2.1 Management of Revenue

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) An appropriate data base had not been created so as to identify the specifically social conservation contributions (Provincial Councils) and arrears of contributions according to contributors. As such, the revenue of Rs.8,683 million, collected under this Head could not be identified as receipts of revenue for the year and receipts of arrears in revenue separately and be separated according to the contributor.	A data base on contributors and payment of contributions should be maintained.	It is practically complicated process to maintain them separating from the report on recovery of Widows' and Orphans' monthly contributions of officers in all Government institutions.
(b) Even though cheques pertaining to payment of widows' and Orphans' contribution should be get down before 05 th day of the next month, a delay from 70 days to 184 days was observed in getting down those cheques. In case of issue of one cheque by provincial councils for contributions of all offices, action should be taken to summon recoveries of every month before 15 day of the following month. However, a delay from 10 days to 54 days was observed therein.	Action should be taken get down contributions on due date.	It has been postponed up to 20 th day of the following month and in case of a delay, action has been taken to get down the relevant money through telephones and letters. Moreover, all other Government institutions are responsible for sending these moneys duly to the Department.
(c) Six cheques valued at Rs.573,809 submitted by 03 institutions by which contributions are sent by cheques, had been returned due to various reasons in the year 2018. Even though a period more than one year had lapsed by 06 May 2019, those contributions had not been recovered again.	Cheques returned should be get down without delay.	It is accepted. Even though the relevant institutions have been continuously enquired regarding those cheques, no replies have been received up to now.

2.2 Management of Expenditure

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) The total net provisions made for 04 recurrent Objects and 02 capital Objects for the year under review had been Rs.1,202.13 million and Rs.1.21 million respectively and the total expenditure relating to those Objects had been Rs.156.99 million and Rs.0.88 million respectively, thus indicating savings of Rs.1,045.13 million and Rs.0.32 million relating to those Objects respectively. Out of that, the savings and the value of one Object had been 100 per cent and Rs.1,000 million and the savings of other remaining 05 Objects ranged between 17.5 per cent and 28.5 per cent.	Accurate expenditure Estimates should be prepared in terms of Financial Regulation 50.	Replies had not been made.
(b) In addition to provisions amounting to Rs.138,117 million made for 06 Objects in the year under review, net transfers of Rs.374.73 million had been deducted in terms of Financial Regulations 66 and 69, thus indicating savings of Rs.1,299.19 million.	Accurate expenditure Estimates should be prepared in terms of Financial Regulation 50.	Reasons such as failure in incurring additional expenditure had been attributed to savings of Objects, more than 5 per cent.

2.3 Issuance and Settlement of Advances

The following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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In terms of Financial Regulation 371 (2)(c) advances should be settled immediately after completion of the relevant purpose. However, a period ranging from 42 days to 114 days had been taken to settle 04 advances valued at Rs.50,000 from the date of issue of advances.	Action should be taken in terms of Financial regulations.	Settlement of advances has been delayed due to nature of expenditure and delay in collection of bills.

2.4 Deposit Balances

The following observation is made.

Audit Observation

Recommendation

Comments of the Accounting Officer

A sum of Rs.696,500 recovered for motor cycles provided to 05 Field Officers due to transfer to another service, had been retained in General Deposit Account from October 2018 without sending to the Department of National Budget.

Action should be taken to send those moneys to the Department of National Budget.

In terms of circulars, it should be sent to the Department of National Budget with relevant information for eliminating motor cycles of those officers from the Lease Register. Even though those officers have been requested the said information, it has not been received up to now and as such, those moneys had been retained in the General Deposit Account.

3 Operating Review

3.1 Procurements

The following observations are made.

Audit Observation

Recommendation

Comments of the Accounting Officer

(a) The contract of renovation of 06 divisions of the Head Office building of the Department had been awarded to a private contractor. According to Standards of the agreement entered into with the contractor for making payments, it was observed that a sum of Rs.332,151 for incomplete purposes and Rs. 1,132,748 for purposes not commenced, had been overpaid.

It should be ensured that the said functions are performed as per the agreement and made payments on accurate measurements.

It cannot be accepted. Payments have been made on the Certificate of the Technical Officer and essential revisions have been made on the requirements of the Departments before 31.12.2018. The National Audit Office has deployed a qualified and recognized Technical Officer and accepted his opinion. In case of an overpayment, a technical evaluation is carried

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| | | out again and it will be recovered from retention money. |
| (b) A sum of Rs.122,939 had been overpaid due to an error of computation in the settlement of bills for renovation of Information Technology Division of the Department. | It should be ensured the accuracy of computations and recovered the loss from persons responsible therefor. | It is an error occurred in computation of payments. Action will be taken to recover retention money of the supplier in making repayments. |
| (c) A sum of Rs.114,954 had been overpaid for unperformed functions as per the agreement in purchasing and fixing of air conditioners in the Government Audit Unit, Internal Audit Unit and Anomalies and Contributions Division. | In case of a loss, it should be again recovered. | In case of an overpayment, action will be taken to recover them again. |

3.2 Losses and Damage

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) According to the financial statements, the overpaid balance of pensions recoverable further by the end of the year under review, had been Rs.591 million. The said balance comprised of Rs.8 million remained over a period of 10 years, Rs. 37 million remained a period ranging from 5 years to 10 years and Rs. 546 million remained a period less than 05 years.	Systems and controls methods should be introduced for the recovery of overpayment of pensions without delay.	Replied had not been made.
(b) Un-reconciliations in 444 Divisional Secretariats were observed in comparing the final balance as at 31 December 2017 and opening balance as at 01 January 2018 of the Register of Losses and Damage.	The final balance of the preceding year should be taken as the opening balance of the year under review.	Instances of un-reconciliations were observed between balances as at 31 December 2017 and 01 January 2018 in reports sent quarterly by Divisional Secretariats in certain instances. The Register of Losses and Damage has been prepared at the end of the year under review by looking into matters, identifying differences and making

adjustments thereto, thus indication differences as above.

3.3 Management Activities

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) It was revealed at the audit test check that there were 669 un-revised files on pensions according to the Public Administration Circular No.6/2006, in 06 Divisional Secretariats.	Action should be taken in terms of provisions of the circular.	The Divisional Secretaries have informed that action will be taken to eliminate those revisions after receiving necessary information for eliminating revisions and anomalies.
(b) The new record room constructed for storing pension files in the Gampaha Divisional Secretariat, had remained idle even by 31 December 2018 and about 11,000 files belonging to the Office, had been stored in a improper manner in the old record room without safety.	Assets should be utilized efficiently.	The Divisional Secretary has informed that storage of files in the new record room, is at the final stage.
(c) It was revealed at the audit test check that 512 pensioners in 06 Divisional Secretariats were being paid pensions without relevant files.	A pension file including relevant documents should be maintained for each pensioner.	The Divisional Secretaries have informed that action will be taken to obtain information on pensioners who do not have files and prepare temporary files and send for approval according to Pensions Circular No.13/2001.
(d) Temporary files prepared for 54 pensioners had not been approved by sending to the Department by the Negombo Divisional Secretariat. Further, according to the pensions data base, 23 pensioners who reside out of the area of authority of the Divisional Secretariat, were being paid pensions by the Negombo Divisional Secretariat.	Temporary files should be forwarded to the Department of Pensions for approval.	Payment of pensions for pensioners who reside out of the area of authority of the Divisional Secretariat, have been discontinued temporarily and necessary instructions have been given to approve files and transfer them properly.
(e) It was observed at the audit test check that there were 99 instances where pensions are being paid without National Identity Card	National Identity Card numbers should be entered into the data	The Divisional Secretaries have informed that action will be taken to prepare

Numbers in the pensions data base in Negombo, Meerigama, Gampaha, Alawwa, Warakapola and Wattala Divisional Secretariats.

base even at the time of calling for annual certificates of residency.

National Identity Cards of pensioners through Grama Niladhari.

4. Human Resources Management

The following observation is made.

Audit Observation

Even though the officers who have completed the service period of more than 05 years in the same service station should have been compulsorily transferred in terms of the Annual Transfer Scheme for Pension Officers and Document Assistants, 08 and 11 officers in the Head office of the Department had served a period more than 10 years and between 06 and 10 years respectively. However, those officers had not been transferred.

Recommendation

Financial misappropriations may occur without being transferred for a long period.

Comments of the Accounting Officer

In the implementation of transfer policy, requirements of officers as well as the service requirement of the Department have been taken into consideration. Officers who make great contribution to the process of payment of pensions as well as who are reliable, are retained in the Head Office by offering internal transfers or the post of Divisional Head as per the service requirement due to reasons such as the process of payment of pensions is carried out by the Head Office and the service of officers with experience on the subject of pensions is essential.
Moreover, officers who are liable to disciplinary action in the establishment or to be terminated the service, are not transferred.