

Local Government Services Pension Fund - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Local Government Services Pension Fund for the year ended 31 December 2019 comprising the balance sheet as at 31 December 2019 and the Income and Expenditure Account and cash flow statement for the year 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(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with section 62(1) of the local government services ordinance (cap.264) and with provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be report 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 accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2019, and of its financial performance and its 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 determine 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 to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per 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 by the Fund.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My responsibility 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 statement.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement 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 management's use of the going concern basis of accounting and based on the audit evidences 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 auditor’s 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 auditor’s 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 the powers, functions and duties; and
- Whether the resources of the Fund has 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

Entities are 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 appropriation action is taken with respect to any differences.

1.5.2 Non- compliance with Sri Lanka Public Sector Accounting Standards

Non- compliance with the reference to particular Standard	Management Comment	Recommendation
Even though Accounts should be kept on accrued basis by the Fund in terms of the Sri Lanka Public Sector Accounting Standard 01, contribution money received relating to the prior years and relating to the year under review had been remitted on cash basis to the Treasury, in the year under review.	Had been agreed relating to the matter.	The Income and the Expenditure should be accounted on accrued basis in terms of the Sri Lanka Public Sector Accounting Standard 01.

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
This Fund has been established with the objective of making the payment of pensions to the members of the Local Government Service who are entitled to pensions, in terms of Section 15 of the Local Government Services Act No.16 of 1974. However, new members had not been included into this Fund since 03 September 1993 on the Provincial Public Officers recruited after the establishment of the Provincial Public Service in the year 1993 being entitled to the pensions benefits, entitled to Public Officers. The expenditure of the Fund had been incurred by making	Had been agreed with the matter.	The Fund being inactive should be disclosed by the Notes to the Accounts.

available the Budgetary Provisions under the Head of Expenditure of the Department of Pensions due to money sufficient for the payment of pensions to the Pensioners of the Local Government Service, not being collected after the year 2011. The expenditure incurred in the current year accordingly had been a sum of Rs.1,054,552,738. As such, the Fund being inactive had not been disclosed by the Notes to the Accounts.

1.6 Receivables

Audit Issue	Management Comment	Recommendation
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<p>The Contribution Money receivable from 287 Local Government Institutions as per the financial statements as at 31 December 2019 had been a sum of Rs.1,148,538,339. Any money whatsoever relating to the Pensions Contribution Money amounting to Rs.463,770,831 receivable from 81 Local Government Institutions, as per the Pensions Contribution Money Registers presented relating to those balances had not been received in the year under review.</p>	<p>Agreed with the matter.</p>	<p>It should be supervised that the Contribution Money is recovered monthly and that action should be taken to recover the outstanding Pensions Contribution Money without a delay.</p>

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the operating result of the year under review amounted to a deficit of Rs.132,436,333 and the corresponding deficit in the preceding year amounted to Rs.29,722,408. Therefore, a decrease of Rs.102,713,725 of the financial result was indicated. The reasons for this decrease had been stating the Contribution Money of the current year as Income and stating the receipts of Contribution Money as Expenditure, in transferring them into the General Account of the Director General of Pensions from the Fund, in the Income and Expenditure Account.