

## **Local Government Services Widowers' and Orphans' Pension Fund – 2019**

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### **1.1 Opinion**

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The audit of the financial statements of the Local Government Services Widowers' and Orphans' 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 Order No.6 of the Local Government Services Widowers' and Orphans' Pension Fund No.16 of 1974 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 Basis for Qualified Opinion of the report, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2019, and 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**

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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**

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Management is responsible for the preparation of financial statement 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 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

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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 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. Misstatement 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 judgement and maintain professional skepticism 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 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 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

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### 1.5.1 Internal Control over the preparation of financial statements

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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 a reasonable intervals and appropriate action is taken with respect to any differences.

### 1.5.2 Accounting Deficiencies

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| Audit Issue  | Management Comment                       | Observation   |
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| (a) Contribution money amounting to Rs.22,194 received relating to the year under review and to the preceding years had been brought to account on cash basis, contrary to the Sri Lanka Public Sector Accounting Standard 01 and, action had not been taken to adjust the further outstanding contribution money. | Has been agreed relating to this matter. | Accounting should be made on accrued basis as per the Sri Lanka Public Sector Accounting Standard 01. |
| (b) This Fund had been established with the objective of making payments of the pensions to widows   | Has been agreed relating to this matter. | Disclosures should be made relating to the Fund becoming inactive, by Notes to the Accounts.          |

and children of the members of the Local Government Service who are entitled to pensions in the Local Government Service in terms of Section 14 of the Local Government Services Act No.10 of 1985. However, new members had not been joined to this Fund after 03 September 1993 on the Provincial Public Officers recruited after the establishment of the Provincial in the year 1993 being entitled to the widows' and orphans' pensions, which are entitled to the Public Officers.

Provisions had been made available under the Head of Expenditure of the Department of Pensions due to sufficient money not being collected in the Fund to make the payment of pensions to the widows and to the children of the deceased members, since that date. Making disclosures by Notes to the Accounts relating to the matter of the Fund becoming inactive in such a manner, had not been carried out.

## **2. Financial Review**

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### **2.1 Financial Result**

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According to the financial result presented, the operating result of the year under review amounted to a deficit of Rs.22,194 and the corresponding deficit in the preceding year amounted to Rs.124,700,734. Therefore, an improvement amounting to Rs.124,678, 540 of the financial result was observed. The reasons for the improvement are a deficit being incurred in the financial result of the preceding year on Matured Investments in the preceding year amounting to Rs.124,673,423 being transferred to the General Account of the Director General of Pensions, from the Fund and accounting it as the expenditure of the Fund and on not having Matured Investments in the preceding year.