

Local Government Services Widowers' and Orphans' Pensions Fund - 2013

The audit of financial statements of the Local Government Services Widowers' 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 and the cash flow statement for the year then ended and a summary of significant accounting policies and 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 62(1) of the Local Government Services Ordinance (Chapter 264). My comments and observations on the aforesaid 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 judgment, 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 for the 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 internal control of the Fund. 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 Local Government Services Widowers' and Orphans' Pensions Fund as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

Accounting Deficiencies

A sum of Rs.28,000,000 had been shown in the financial statements as contribution for payment of total pensions in the year under review. However, according to the classification of expenses in the computer data system of the Department of Pensions, the entire expenditure on pensions of the Fund had been Rs.56,181,121. As such the expenditure on pensions had been understated by Rs.28,181,121 in the accounts.

2.3 Non-Compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances with Laws, Rules, Regulations and Management Decisions were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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(a) Section 8 of the Local Government Services Widowers' and Orphans' Pensions Fund Orders of 1986.	Even though registers for recording all contributions paid by the contributors and the Local Authorities should be maintained, it had not been so done.
(b) Paragraph 4.1 of the Public Finance Circular No. PF/423 of 22 December 2006	The budget for the year under review had not been prepared and approved by the Minister in charge of the subject.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Fund for the year under review had resulted in a surplus of Rs.10,942,414 as compared with the corresponding surplus of Rs.31,176,110 for the preceding year, thus indicating a deterioration of Rs.20,233,696 in the financial result.

3.2 Analytical Financial Review

Decrease of interest income on decrease of interest rates for the year under review as compared with the preceding year by Rs.1,284,735 and capital losses on maturity of treasury bonds of Rs.2,112,184 had mainly affected the deterioration of the financial result.

4. Activities of the Fund

Even though in terms of Section 14 of the Local Government Services (Amendment) Act, No.10 of 1985 and Section 16.a (2) (1) of the First Ordinance, it has been mentioned that the Director General of Pensions is in control of the said Fund, preparing of Monthly Salary Registers and charge of the files of the Fund had been decentralized to the Divisional Secretaries from 01 January 2011 by Pensions Circular No.12/2010 of 13 December 2010.

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) Payment of Pensions
- (c) Investments
- (d) Registers of Receipts of Contributors