

Local Government Services Widowers' and Orphans' Pension Fund

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in Paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Local Government Services Widowers' and Orphans' pension Fund as at 31 December 2011 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

The overall pension expenses of the Fund for the year under review had not been computed and adjusted to the income and expenditure account.

1.2.2 Unexplained Differences

According to the information made available for audit, the pension expenses of the Fund for the year under review amounted to Rs.3,196,199 whereas according to the classification of expenditure of the computer data system of the Department of Pensions, the expenses for the year under review amounted Rs.60,249,892 thus, indicating a difference of Rs.57,053,693.

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

Non-compliances observed in audit are shown below.

Reference to Laws, Rules, Regulations etc. -----	Non-compliance -----
(a) Financial Regulations No.446(2) of the Republic of Sri Lanka	- The Cash Book had not been properly maintained in terms of the Financial Regulations.
(b) Public Finance Circular No.PF/423 dated 22 December 2006	
(i) Paragraph 4.1 (a)	- The budget for the year under review had not been approved by the Minister in charge of the subject.
(ii) Paragraph 4.3 (c)	- The cash flow statement for the year under review had not been furnished along with the financial statements.
(c) Paragraph 2(iv) of the Pension Circular No.12/2010 dated 13 December 2010	- The Department of pensions had not obtained the consolidated reports on the monthly expenses of the Fund from the District Secretariats.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operating result of the Fund for the year under review was a surplus of Rs.37,137,830 as compared with the surplus of Rs.42,858,914 for the preceding year, thus indicating a deterioration of Rs.5,721,084 in the financial result. Decrease of interest income by Rs.2,892,308 due to the decrease of interest rates during the year under review and the decrease of capital profits on matured investments by Rs.2,909,959 had mainly contributed for the deterioration of the financial result.

3. Operating Review

3.1 Performance

According to Section 14 of the Local Government Services (Amendment) Act No. 10 of 1985, the control over the said Fund is vested with the Director General of Pensions as required by Section 16 a(2)(1) included in the original Statute. But, in contrary to the requirements of the Act, preparation of monthly pension statements of the Fund and the custody of the files had been decentralized with the Divisional Secretaries from 01 January 2011 by the Pension Circular No.12/2010 dated 13 December 2010.

3.2 Weaknesses in Financial Management

A sum of Rs.42,499,638 had been invested only in Treasury Bonds without exploring investment decisions favorable to the Fund, in investing surplus money of the Fund by evaluating expected benefits from the fixed deposits and Treasury Bonds which are investment sources approved by the Treasury Operations Circular No.1/2008 dated 03 March 2008.

4. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought 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.) Expenditure Reports
- (c.) Investments