

## **Local Government Services Pensions Fund - 2014**

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The audit of financial statements of the Local Government Services Pensions Fund for the year ended 31 December 2014 comprising the balance sheet as at 31 December 2014 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 (Cap. 264). My comments and observations on the aforesaid financial statements appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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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**

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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's 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 Fund's internal control. 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 Operation of the Fund**

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Even though it is mentioned that the control of this Fund comes under the purview of the Director General of Pensions in terms of Section 18 of the Local Government Service Law No. 16 of 1974 of the National State Assembly, the preparation of Monthly Salary Registers and the custody of files had been decentralized to the Divisional Secretaries from 01 January 2011 by Pensions Circular No. 12/2010 of 13 December 2010.

#### **1.5 Basis for Adverse Opinion**

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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**

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#### **2.1 Adverse Opinion**

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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 Pensions Fund as at 31 December 2014 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**

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### **2.2.1 Accounting Policies**

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The Income and Expenditure Account had been prepared on cash basis contrary to the Sri Lanka Public Sector Accounting Standard No. 1.

### **2.2.2 Accounting Deficiencies**

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Even though all receipts and payments relating to the Fund should be included in the income and expenditure statement of the Fund, an income and expenditure amounting to Rs. 884,598,279 had not been brought to account as the provisions received from the General Treasury for the payment of pensions and expenditure incurred therefrom had been made through the General Account of the Director General of Pensions. As such, an actual position was not reflected in the financial statements.

### **2.2.3 Unexplained Differences**

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Even though the balance receivable from Local Authorities indicated under contributions receivable in the financial statements as at 31 December 2014 amounted to Rs. 1,482,807,242 difference of Rs. 64,018,765 was observed as the contributions receivable according to the Registers of Bills amounted to Rs. 1,418,788,477. The reasons for this difference had not been explained to audit.

#### 2.2.4 **Accounts Receivable and Payable**

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Dishonored cheques to the value of Rs. 604, 652 shown in the final accounts of the preceding year had been written off against the Accumulated Fund in the year under review without taking action to settle them.

#### 2.3 **Non-compliance with Laws, Rules and Regulations and Management Decisions**

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Non-compliances with the following laws, rules, regulations, etc. were observed.

<b>Reference to Laws, Rules, Regulations, etc.</b>	<b>Non-compliance</b>
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(a) Section 20 of the Local Government Services Law, No. 16 of 1974 of the National State Assembly and Paragraph 4.3 of the Pensions Circular No. 02/2011 of 24 February 2011
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Necessary action had not been taken in terms of Section 20 of the Local Government Service Law to deduct the outstanding balance of contributions amounting to Rs.1,481,572,840 payable to the Fund by Local Authorities from any money payable to the Local Authorities or to recover in accordance with the circular instructions.
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(b) Paragraph 4.1(a) of Public Finance Circular No. PF/423 of 22 December 2006
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The Annual Budget prepared in accordance with the objectives of the Fund should be forwarded to the Minister concerned by the Controlling Authority and the Secretary to the Ministry for approval before 15 September of the preceding year. Even though this budget should be presented to the Director General of National Budget and the Director General of Public Finance before 30 September, it had not been so done.
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- (c) Circular No.01/2012 of 08 February 2012 of Director General of Pensions
- The reports on deaths during each month should be sent to the Department of Pensions before the 25<sup>th</sup> of the following month by District Secretaries. Nevertheless, it had not been so done and action had not been taken to summon those reports.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the operations of the Fund for the year under review had resulted in a deficit of Rs. 38,013,664 as against the surplus of Rs. 25,118,987 for the preceding year, thus indicating a deterioration of Rs. 63,132,651 in the financial results as compared with the preceding year.

### **4. Operating Review**

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#### **4.1 Performance**

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The following observations are made.

- (a) Reports on the information of pensioners and their stations served had not been prepared by the Department of Pensions before the decentralization of pension files of the Local Government to Divisional Secretariats since January 2011. As such, a sum of Rs. 2,003,477 for the year under review had been adjusted to the Contribution Account as deaths without taking action to summon reports on deaths or specifically to confirm them.

- (b) Even though the number of deceased pensioners during the year according to the computer database on pensions as at the end of the year under review had been 331, a methodology had not been implemented to ensure that number.
- (c) Even though the payment of pensions had continuously increased per month, a Reconciliation Register had not been prepared to ensure such increases by identifying the financial amount. The possibility of making double payments due to the unavailability of the updated Register of Pensioners by the Fund and failure to intervene to make adjustments when pensioners pass away, cannot be ruled out in audit.

#### **4.2 Management of Contributions**

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The following observations are made.

- (a) Action had not been taken to obtain any contributions whatsoever since 03 preceding years from 86 Local Authorities. Contributions totalling Rs. 498,066,707 had been outstanding as at the end of the year under review relating to those Authorities. It had been 33.67 per cent of the total outstanding amount.
- (b) According to the information obtained, relating to 17 Local Authorities for the year 2013 it was observed in audit that differences between the payment of contributions and receipts of those contributions to the Department of Pensions had been understated and overstated by Rs. 2,169,430 and Rs. 145,250 respectively.
- (c) According to the information presented to audit along with the Account, adjustments had not been made for deaths in the year 2014 relating to 50 Local Authorities in 07 Districts.

**5. Systems and Controls**

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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) Management of Pensions Systems