

Local Government Service Pensions Fund - 2013

The audit of financial statements of the Local Government Service 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 cash flow statement for the year then ended and a summary of significant 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 above financial statements appear in this report.

1.2 Management's Responsibility for 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 judgements, 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 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 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

2.2.1 Accounting Deficiencies

Even though the total contributions for payment of pensions during the year under review had been shown as Rs.79,250,000 in the financial statements, the total expenditure on pensions of the Fund during the year under review had been Rs.878,725,010 according to the classification of expenditure of the computer data base of the Department of Pensions. As such, the expenditure on pensions had been understated by a sum of Rs.799,475,010 in the account.

2.2.2 Lack of Evidence for Audit

The following transactions could not be vouched or accepted in audit due to the lack of audit evidence.

- (a) The balance receivable from the Local Authorities shown under the contributions receivable in the financial statements as at the end of the year under review had been overstated by a sum of Rs.62,897,485 than the balance of contributions receivable according to the Register of Bills related to the computation. The audit evidence explaining the difference was not made available to audit.
- (b) Action had not been taken to settle the dishonoured cheques valued at Rs.604,652 shown in the accounts. The particulars of those cheques had not been furnished to audit.

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

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

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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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	Action had not been taken in terms of Section 20 of the Local Government Service Law for the recovery of the outstanding balance of Rs.1,521,471,434 payable to the Fund by Local Authorities from any

of 24 February 2011

money payable to the Local Authorities or for the recovery in accordance with the circular instructions.

(b) Public Finance Circular No. PF/423 of 22 December 2006
Paragraph 4.1(a)

Action had not been taken to prepare the budget for the year under review and obtain the approval of the Minister in charge of the subject.

(c) Circular No.01/2012 of 08 February 2012

The reports on deaths during each month should be sent to the Department of Pensions before the 25th of the following month by District Secretaries. Nevertheless, it had not been so done and action had not been taken to get down those reports.

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.25,118,987 as compared with the corresponding surplus of Rs. 25,963,371 for the preceding year, thus indicating a deterioration of Rs.844,384 in the financial results as compared with the preceding year. The decrease of Rs. 15,494,385 in the income from contributions had attributed to the deterioration.

4. Operating Review

4.1 Performance

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 01 January 2011. As such, a sum of Rs.223,836 for the year under review and Rs.433,991 for the preceding year had been adjusted to the Contribution Account as deaths without being properly confirmed.
- (b) According to the data relating to the years 2012 and 2013 obtained from the Statistics Division of the Department, the number of deceased pensioners of Local Government had been 491 whereas only 183 deceased pensioners had been adjusted even by the end of the year under review. As such, action had not been taken to make adjustments relating

to 308 deceased pensioners and eliminate the contribution in computations. Consequently, the contribution for the Local Authorities had been prepared continuously without eliminating the names of deceased pensioners. Thus, it was observed that the value of contributions of the year had been overstated.

4.2 Management of Contributions

The following observations are made.

- (a) The number of Pradeshiya Sabhas which had not paid any contributions in the year under review had been 123 and the contributions receivable from those institutions amounted to Rs.10,370,925.
- (b) The information on the payment of Local Government Service Pensions during several preceding years and the accounting for the contributions relating to those years is given below.

Year	The value of Payment of Pensions	Contributions received for the Year
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	Rs.	Rs.
2010	940,060,460	129,981,285
2011	689,425,595	122,978,480
2012	837,302,193	119,863,371
2013	878,725,010	104,368,987

The following observations are made in this connection.

- (i) The pensions paid in the year 2012 had exceeded the payments in the year 2011 by a sum of Rs.147,876,598 while the payments in the year 2013 had exceeded the payments in the year 2012 by a sum of Rs.41,422,817. Nevertheless, the contribution for the year had been decreasing gradually.
- (ii) Even though the pensions had been revised in several instances during several preceding years, the contributions receivable had not been revised accordingly.

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) Budget
- (c) Contributions