

Local Government Services Pensions Fund - 2015

The audit of financial statements of the Local Government Services Pensions Fund for the year ended 31 December 2015 comprising the balance sheet as at 31 December 2015 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(3) 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

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 Auditing 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 judgement, 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

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, 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

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 2015 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 Sri Lanka Public Sector Accounting Standards

(a) Sri Lanka Public Sector Accounting Standard 01

- i. The Income and Expenditure Account had been prepared on cash basis, contrary to the Standard.
- ii. The statement of changes in equity had not been prepared and presented in terms of the Standard, along with the financial statements of the year under review.

2.2.2 Accounting Deficiencies

- (a) Even though all receipts and payments relating to the Fund should be reported by the Income and Expenditure statement of the Fund, transactions relating to this Fund had been carried out through the General Account of the Director General of Pensions. As a result, a sum of Rs.1,201,716,074 received from the Treasury for the payment of pensions and pensions expenditure of the year amounting to Rs.1,201,716,074 had been omitted from the accounts. However, receipts of contributions remitted to the Department by the Fund, with the total erroneous credits that should not be posted to the Income and Expenditure Account, a sum of Rs.85,094,242 had been stated as payments of pensions. As such, payment of benefits had not been correctly reflected through the accounts due to not indicating the payment of pensions even by a note.
- (b) Even though the institutional contribution receivable in the year under review amounted to Rs.90,813,750, it was observed that the surplus amounting to Rs.5,721,764 had been disclosed in the Income and Expenditure Account due to a sum of Rs.85,094,242 received within the year being brought to account in the Income and Expenditure Account without considering the accrual basis.

2.2.3 Unexplained Differences

The following observations are made.

- (a) i. Even though the balance of contribution receivable in the financial statements as at 31 December 2015 amounted to Rs.1,488,836,178, a difference of Rs.63,826,902 was observed due to that balance shown in the Billing Registers, as Rs.1,425,009,276.
- ii Even though differences exist over the years between the contribution balance and the balance referred to in the bill book referred to as receivable in the financial statements as at 31 December in every years, adjustments had not been made for that matter in any year. That difference had taken varying values in each year. It had differed by sums of Rs.187,490,163, Rs.62,897,485, Rs.64,018,765 in the years 2012,2013 and 2014 respectively and reasons caused for it had not been made available to audit.
- (b) It was observed in terms of the Pensions computerized database system that the number of pensioners of the Local Government Services Pension Fund who received pensions had been 66,158 in the year 2015 and 61,634 in the year 2014. Thus, an addition of 4,524 pensioners to the Fund was revealed. As this fund had consisted with pensioners who retired prior to 03 September 1993, the new pensioners are not added to this fund. As such, reasons for the payment of pensions to 4,524 pensioners during the year 2015 had not been explained to audit.
- (c) It was observed in terms of the computerized database system that 331 pensioners had joined the Local Government Services Widowers' and Orphans Pensions Fund and 4,752 pensioners had joined the Local Government Services Widows' and Orphans Pensions Fund during the year 2015. Accordingly, it was revealed that 5,083 pensioners of this Fund had died during the year 2015. However, adjustments had not been made in terms of deaths of all the Local Government Institutions belonging to the 25 districts of the Local Government Services Pensions Fund Account. As such, evidence had not been furnished to audit to confirm the above information due to not taking action to collect details of deaths of the members of the Fund.
- (d) Even though a decrease of Rs.250,634,865 in the year 2011, and increases of Rs.147,876,598, Rs.41,422,817, Rs.5,873,269, Rs.317,117,795 in the years 2012, 2013, 2014 and 2015 respectively were indicated in comparing the payment of Local Government Service pension of several preceding years with the previous year, explanations with the analytical calculations on the reasons caused to the variations of pensions had not been presented to audit.

2.2.4 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken to recover the outstanding balance of contribution amounting to Rs.461,959,516 receivable as at the last date of the year under review from 79 Local Authorities since 04 preceding years and it was 31 per cent out of the entire outstanding balance of contribution.
- (b) It was observed that a difference amounting to Rs.173,856,932 existed between the balance payable by the Local Authorities and the balance receivable to the Pensions Fund according to the information obtained from 19 Local Authorities as at 31 December 2015.

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

The following non-compliances with laws, rules, regulations, etc. were observed.

Reference to Laws, Rules and Regulations, etc.	Non-compliance
-----	-----
(a) Section 20 of the Local Government Services Law, No. 16 of 1974 and Paragraph 4.3 of the Pensions Circular No. 02/2011 of 24 February 2011	Necessary action had not been taken to set off the outstanding balance of contributions amounting to Rs.1,487,828,844 payable to the Fund by Local Authorities against any money payable to the Local Authorities or to recover it.
(b) Paragraph 4.1(a) of Public Finance Circular No. PF/423 of 22 December 2006	The Budget for the year under review had not been prepared and the approval of the Minister in charge of the subject had not been obtained for it.
(c) Pensions 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 25 th of the following month by District Secretaries. Nevertheless, it had not been so done and action had not been taken to summon those reports.
(d) Pensions Circular No.4/2011 of 15 December 2011	Even though it had been advised to obtain the expenditure of the Fund in terms of the classification of pensions from the computerized system, action had not been taken to state in the account by obtaining the expenditure accordingly.

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. 5,721,764 as against the deficit of Rs. 38,013,664 for the preceding year, thus indicating an increase of Rs.32,291,900 in the financial result as compared with the preceding year. However, this financial result may change on the accounting deficiencies stated in paragraph 2.2 above.

4. Operating Review

4.1 Performance

Even though this Fund was established with the objective of paying pensions and gratuities to the members with pensions of the Local Government Service in terms of Section 15 of the Local Government Service Law, No.16 of 1974, the objective of the establishment of the Fund had not been achieved as the expenditure of the Fund had been incurred by budgetary provisions under the Expenditure Head 253.

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 and special attention is needed in respect of the following areas of control.

Area of Control	Observation
-----	-----
(a) Accounting	- Income and expenditure had not been brought to account in order to reflect the operation of the Fund.
(b) Recovery of Contributions	- Not taking action to recover the outstanding balance of contributions and the contributions of the year under review properly.
(c) Updating the Membership Register	- Not updating by adjusting deaths to the number of members by calling information in divisional secretariats level and not ensuring pensions expenditure accordingly.