

## **Local Government Services Widowers' and Orphans' Pensions Fund - 2015**

---

The audit of financial statements of the Local Government Services Widowers' and Orphans' 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 Order No.06 of the Local Government Services Widowers' and Orphans' Pensions Fund of 1986 enacted in terms of Section 23 of the Local Government Services Law No.16 of 1974. 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 misstatement 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 Operation 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 Principal Enactment, it has been mentioned that the said Fund shall be administered by the Director General of Pensions, the preparation of Monthly Salary Registers and the custodian 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.

## **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 Widowers' and Orphans' 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**

-----

Income and Expenditure Account had been prepared in the year under review on cash basis, contrary to Sri Lanka Public Sector Accounting Standard 01.

#### **2.2.2 Accounting Deficiencies**

-----

Even though all receipts and payments of the Fund should be reported in the income and expenditure statement of the Fund, transactions relating to this Fund had been made through the General Account of the Director General of Pensions. As such, a sum of Rs. 92,167,536 received from the General Treasury for the payment of pensions and the expenditure on pensions of the year amounting to Rs. 92,167,536 had been omitted from accounts. However, realisation of investments remitted by the Fund to the Department and interests thereon amounting to Rs. 241,614, 357 had been shown as payment of pensions. Payment of benefits of the Fund had not been accurately reflected in the accounts due to failure in indicating the payment of pensions even by a note.

#### **2.2.3 Lack of Evidence for Audit**

-----

Even though it was observed according to the information of the computer data base system of the Department of Pensions that the number of pensioners of the Local Government Services Widowers' and Orphans' Pensions Fund stood at 4,850 and 5,181 as at 31 December 2014 and 31 December 2015 respectively, no evidence whatsoever had been made available to audit to ensure the increase of 331 pensioners due to failure in maintenance of information on the number of pensioners of the Fund identifying the number of pensioners relevant to the Fund, adjusting the annual additions or deaths by the Fund.

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

-----

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

## **3. Financial Review**

-----

### **3.1 Financial Results**

-----

According to the financial statements presented, the financial result of the Fund for the year under review had been a deficit of Rs. 209,924,558 as compared with the corresponding deficit of Rs. 92,076,168 for the preceding year, thus indicating a deterioration of Rs. 117,848,390 in the financial result of the year under review as compared with the preceding year. However, this financial result may change as a result of accounting deficiencies shown in paragraph 2.2.2 of this report.

## **4. Operating Review**

-----

### **4.1 Performance**

-----

This Fund had been established with a view to paying pensions to the widowers and orphans of the members of the Local Government Services with pensions in terms of Section 16(a) of the Local Government Services Law (Amendment) No.10 of 1985. Nevertheless, the objectives of the establishment of this Fund had not been fulfilled due to incurring expenditure of the Fund by budgetary provisions under the Head of Expenditure of the Department of Pensions.

## **5. Accountability and Good Governance**

-----

### **5.1 Internal Audit**

-----

An internal audit had not been carried out in the year under review.

## **6. 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.

**Areas of Systems and Control**

-----

(a) Accounting

(b) Control over payment of pensions

**Observations**

-----

Income and expenditure had not been brought to account so as to reflect the operation of the Fund.

Information of the members of the Fund had not been maintained in an updated manner by calling information at regional level and expenditure on pensions had not been ensured accordingly.