

## **Local Government Services Pensions Fund - 2016**

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The audit of financial statements of the Local Government Services Pensions Fund for the year ended 31 December 2016 comprising the balance sheet as at 31 December 2016 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**

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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 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 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 2016 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 Sri Lanka Public Sector Accounting Standards**

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In terms of Public Enterprises Circular No. 03/2013 of 02 October 2013, the financial statements of the year under review had not been prepared on accrual basis in accordance with Sri Lanka Public Sector Accounting Standards.

#### **2.2.2 Accounting Deficiencies**

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Expenditure on pensions amounting to Rs.1,090,670,647 received from the General Treasury for the payment of pensions had been omitted from the financial statements due to carrying out transactions through the General Account of the Director General of Pensions.

#### **2.2.3 Transactions not supported by Adequate Authority**

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The difference of Rs.63,071,535 remained between the financial statements as at 31 December 2016 and the Bill Book as at that date relating to the contributions receivable had been written off against the Accumulated Fund of the year under review without obtaining confirmation of balances from the relevant Local Authorities and the approval of the Director General of Pensions, the Secretary to the Ministry and the Treasury.

#### **2.2.4 Unexplained Differences**

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According to the audit test check, a difference of Rs.637,799 remained between the balance of contributions of Pensions payable by 06 Local Authorities and the List of Balances presented along with the Funds Account of the year under review.

#### **2.2.5 Lack of Evidence for Audit**

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According to the Pensions Data Base System, a decrease of 310 pensioners of the Fund was observed between the months of January and December 2016. According to the List of Balances presented with the account, a value of Rs.3,091,382 had been considered as relating to deaths in the year. Nevertheless, according to accounts, the number of deaths relating to that amount could not be revealed.

## 2.2.6 Accounts Receivable

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According to the List of Contributions of Pensions presented, no amount whatsoever had been recovered even by the end of the year under review out of the total of Rs.525,969,061 recoverable from 109 Local Authorities and attention had not been paid in this connection and adequate steps had not been taken.

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

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Non-compliances with the following laws, rules, regulations and management decisions were observed during the course of audit.

### Reference to Laws, Rules, Regulations, etc.

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### Non-compliance

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| (a) Section 20 of the Local Government Services Ordinance, No. 16 of 1974 and Paragraph 4.3 of the Pensions Circular No. 02/2011 of 24 February 2011 | Adequate steps had not been taken by the Local Authorities to deduct the outstanding contributions amounting to Rs.1,385,579,004 receivable to the Fund from 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   | A budget had not been prepared for the year under review and the approval not obtained from the Minister in charge of the subject thereon.  |
| (c) Pensions Circular No.4/2011 of 15 December 2011  | According to classification of pensions, it had been instructed to obtain the expenditure of the Fund through the computer system. However, action had not been taken to obtain the expenditure as such and to show it in the account.  |
| (d) Pensions Circular No.01/2012 of 08 February 2012   | Steps had not been taken to summon the reports on deaths of the relevant members of the Fund during each month before the 25 <sup>th</sup> of the following month from the District Secretaries and to make timely adjustments relating to deaths according to 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.36,428,661 as against the surplus of Rs.5,721,764 for the preceding year, thus indicating a deterioration of Rs.42,150,425 in the financial result in the year under review as compared with the preceding year. However, based on the Accounting Deficiencies shown in paragraph 2.2.2, the impossibility of further change in this financial result could not be ruled out in audit.

### **4. Operating Review**

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#### **4.1 Performance**

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In terms of Section 15 of the Local Government Services Ordinance, No.16 of 1974, this Fund had been established with a view to paying pensions and gratuities to members of the Local Government Service who are entitled to pension. However, the main objective of establishing this Fund had not been achieved due to incurring expenditure of the Fund through the provisions of Annual Budget Estimates under Object 253.

#### **4.2 Management Activities**

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A cash balance ranging from Rs.1,506,900 to Rs.11,821,245 collected during the first two weeks of every month had been idly retained due to transferring the contributions collected to the Fund to the General Account of the Department only at the end of every month.

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

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#### **5.1 Internal Audit**

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In terms of Management Circular No. DMA/2009/(I) (II) of 28 January 2016, an internal audit should be carried out. Nevertheless, an internal audit of the Fund had not been carried out.

### **6. 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.

**Areas of Systems and Controls**

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**Observations**

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(a) Accounting

Failure in accounting the income and expenditure accurately so as to reflect the performance of the Fund.

(b) Recovery of contributions

Failure in taking action to recover the outstanding contributions and the contributions of the year under review properly.

(c) Members' Register

Failure in updating members' data by summoning information on Divisional Secretariat level and confirmation of expenditure on pensions accordingly.