

Local Government Services Widowers' and Orphans' Pension Fund - 2016

The audit of financial statements of the Local Government Services Widowers' and Orphans' Pension Fund for the year ended 31 December 2016 comprising the balance sheet as at 31 December 2016 and the income and expenditure account and 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 the Order No. 06 of the Local Government Services Widowers' and Orphans' Pension Fund Orders 1986 made under Section 23 of the Local Government Services Act, No. 16 of 1974. My comments and observations on the above 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 the 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'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

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, the Director General of Pensions has the control of the above Fund. However the preparation of the monthly pension registers and the custody of the files had been decentralized with effect from 01 January 2011 to Divisional Secretaries by the Pensions Circular 12/2010 of 13 December 2010 without amending the Act.

1.5 Basis for Adverse Opinion

Had the matters describe 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' Pension 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

2.2.1 Sri Lanka Public Sector Accounting Standards

The financial statements for the year under review had not been prepared according to the accrual basis in term of Sri Lanka Public Sector Accounting Standard 1.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Even though the investment interest income receivable as at 31 December 2016 amounted to Rs. 2,895,992 that had been shown as Rs. 2,806,049 in the financial statements, thus resulting in an understatement of Rs. 89,943.
- (b) As the transactions had been effected through the General Account of the Director General of Pensions, the expenditure on pensions amounting to Rs. 58,294,523 made from the money received from the General Treasury for the payment of pensions had been omitted in the financial statements.

3. Financial Review

3.1 Financial Result

According to the Financial Statements presented the operating results of the Fund for the year under review had been a deficit of Rs. 21,335,565 as compared with the corresponding deficit of Rs. 209,924,558 for the preceding year thus indicating an improvement of Rs. 188,588,993 in the financial result for the year under review as compared with the preceding year. Nevertheless, in view of the accounting deficiencies shown in paragraph 2.2.2 the possibility of further change of this financial result cannot be ruled out.

4. Operating Review

4.1 Performance

According to Section 16(a) of the Local Government Service (Amendment) Act, No.10 of 1985, this Fund had been established with the objective of payment of Pensions to the Widowers and Children of the pensionable members of the Local Government Services. Nevertheless, the expenditure of the Fund is met from the budgetary provisions made under the Head of the Department of Pensions and as such the primary objective of establishing the Fund had not been achieved.

4.2 Operating Activities

Even though there were variances in the monthly pension expenditure, a register for comparison had not been maintained to identify such amounts in financial terms and compare the variances. The Fund did not have an updated list of names of pensioners entitled to pension. As the adjustment for death of pensioners is not done efficiently, the possibility of making double payment cannot be ruled out in Audit.

5. Accountability and Good Governance

5.1 Internal Audit

An internal audit of the Fund had not been carried out in terms of the Financial Regulations 133 of the Financial Regulation of the Democratic Socialist Republic of Sri Lanka.

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 Controls

Observation

(a) Accounting

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

(b) Payment of Pensions

Information on the members of the Fund had not been maintained in the updated manner by calling for information at the regional level.