

Local Government Services Pensions Fund - 2017

The audit of financial statements of the Local Government Services Pensions Fund for the year ended 31 December 2017 comprising the balance sheet as at 31 December 2017 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 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 2017 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**

As the Fund is followed the Public Sector Accounting Standards , as such accounting should be done on accrued basis. However, the revenue had been accounted on accrued basis and the expenditure had been accounted on cash basis. Accordingly, a deficiency had become in the financial result continuously due to the total receipts of contributions received to the Fund had been identified as an expenditure and it had been Rs.36,428,661 and Rs.64,985,626 only in the year under review and the preceding year respectively. As such, the balance of the accumulated fund amounted to Rs.1,421,320,802 in the year 2016 had also been decreased up to Rs.1,382,039,109 in the year under review.

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

In terms of the Pensions Circular No.01/2012 dated 08 February 2012 , the reports including the details of the members who deceased in each month should be received before 25th day of the following month by the District Secretaries and the information on deceased members had not been updated according to the said reports.

2.4 **Accounts Receivable and Payable**

The following observations are made.

- (a) According to the financial statements as at 31 December 2017, the value of contributions outstanding relevant to 292 Local Authorities totaled Rs.1,317,604,316 and out of that the number of Local Authorities with outstanding contributions over Rs.100,000 was 184 and the value of the contribution therein amounted to Rs.1,314,808,618. Out of that, the number of Local Authorities outstanding over Rs.100 million was 03 and the value therein amounted to Rs.558,549,276.
- (b) The number of Local Authorities which were not paid the contributions in the year under review was 96 and the contributions amounting to Rs.475,638,177 recoverable from that Institutions , had not been recovered.

- (c) The contributions receivable as at the end of the year under review from 61 Local Authorities in which the recoveries outstanding from the period of 05 previous years amounted to Rs.435,431,048 and it was 33 per cent of the total contributions outstanding.

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 deficit of Rs.64,985,626 as compared with the corresponding deficit of Rs. 36,428,661 for the preceding year.

4. **Operating Review**

4.1 **Performance**

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. However, addition of new members to the Fund had not been occurred since 03 September 1993 due to the officers of the Local Authorities also entitled for the benefit of pensions and widows and orphans pensions scheme as the Public Servants entitled ,with the establishment of the Local Government Service in the year 1993. As a result of non-receiving of new membership fees and the contribution of the existed members is not adequate to the payment of pensions , the expenditure on pensions could be incurred by the provisions for annual budget estimate under the head of expenditure of the Department. As such , the main objective of the establishment of the Fund had not been achieved.

5. **Accountability and Good Governance**

5.1 **Internal Audit**

An Internal Audit Unit had been established in the Department of Pensions .However, an internal audit on the activities of the Fund had not been carried out in the year under review by the said unit or in terms of Financial Regulation 133.

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	Observations
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(a) Accounting	Failure to account the revenue and expenditure accurately , so as to show the activity of the Fund.
(b) Recovery of Contributions	Action had not been taken to proper recovery of the arrears of contributions and the contributions of the year under review.
(c) Maintenance of books and registers	Failure to update data on the members by calling up information at the Divisional Secretariat level and the expenditure on pensions had not been established accordingly.