

Local Government Services Pension Fund - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Local Government Services Pension Fund for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the Income and Expenditure Account and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the fund as at 31 December 2021, and of its financial performance for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

I expressed qualified opinion based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the fund's stability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the fund or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the fund's financial reporting process.

As per sub section 16(1) of the National Audit Act, No.19 of 2018, the fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the fund.

1.4 Auditor's Responsibility for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's summary report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of

information to enable a continuous evaluation of the activities of the fund, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund
- Whether the Fund has performed according to its powers, functions and duties, and whether the resources of the fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non compliance with Sri Lanka Public Sector Accounting Standards

| Non-compliance with the reference to particular standard | Management Comments | Recommendation |
|--|--|--|
| Accounts should be kept on accrued basis by the fund in terms of Accounting Standard No.01. Despite that the contribution of Rs.91,246,749 received in the year relevant to the previous years and this year had been accounted on the cash basis. | Since the monthly pension payment for the beneficiaries of local government service pensions has not been made using this fund since the year 2011, the pension payment will not be adjusted according to the accrual basis. | Revenue should be accounted for on an accrual basis as per standard. |

1.5.3 Unreconciled Control Accounts or Records

The following observations are made.

| | Item | Value as per financial statements Rs. | Value as per corresponding records Rs. | Difference Rs. | Management Comments | Recommendation |
|-----|--------|--|---|-------------------|--|--|
| (a) | Contri | 296,675,317 | 51,783,885 | 244,891,432 | This difference reflects the fact that cheques sent in December 2021 were received by us in January 2022 and were not accounted for in December 2021. | Steps should be taken to recover the contribution receivable |
| (b) | Contri | 31,440,706 | 47,924,861 | 16,484,155 | Since the removal of deaths related to the last three months of 2021 will be done in the December 2021 bill and the local government bodies will be informed about this in January 2022, according to the account of the Local Government Service Fund, the balance as at 31 December 2021 will be shown less. | Steps should be taken to recover the contribution receivable |
| (c) | Contri | 256,491 | 117,690 | 374,181 | The amounts to be paid by the respective organizations are informed by the monthly bills and so far no notification has been made that there is a change in the contribution amount to be paid by any organization. | Receivable and payable balances should be settled. |

1.5.4 Lack of Audit evidence

| Subject | Amount Rs. | Audit evidence not provided | Management Comments | Recommendation |
|-------------------------|---------------|--|--|--|
| Contribution receivable | 566,236,315 | According to the financial statements as at 31 st December 2021, contribution of Rs.566,236,315 in relation to the 123 local government institutions out of contribution of Rs.1,117,176,437 in respect of 302 local government bodies had not been received. | I agree. Through letters and telephone calls to the local government bodies, I will take action to contact the officials of the local government bodies to obtain confirmation of the balances for the contributions due, in future. | Action should be taken to obtain confirmation of balances. |

1.6 Accounts Receivable and Payable

1.6.1 Receivables

The following observations are made.

| Audit Observation | Management Comments | Recommendation |
|---|--|---|
| (a) According to the financial statements, contribution receivable as at 31 December 2021 amounting to Rs.455,320,462 due from 302 local government bodies had not been received during the financial year. | Actions have already been taken to collect the dues from the local authorities. By making phone calls, local government officials have been further informed and action has been taken to collect money. Furthermore, through my letter of No. විච/ප/පා/ගි/ලිඔහ/02 of 3 rd November 2021 relevant government bodies who have not paid any contribution in the year 2020, have been informed about it. | Steps should be taken to recover the contribution receivable. |
| (b) No action has been taken to recover Rs.435,356 due from a deceased member of Thirappane Local Government institution. | Action will be taken to recover Rs.435,355.76 due from the Thirappane local council and the amount of Rs.0.34 which should be collected from the Mahaoya local council by informing the officials of the respective local government bodies, in due course. | Steps should be taken to recover the contribution receivable. |

1.7 Non compliances with Laws, Rules, Regulations and Management Decisions

The following observations are made.

| | Reference to Laws, Rules and Regulations | Non compliance | Management Comment | Recommendation |
|-----|--|---|---|---|
| (a) | Finance Regulations 876 (2) (b) inserted by paragraph 5 of Public Finance Circular No. 2/2018 dated 28 August 2018 and paragraph 15.1 of Public Finance Circular No. 1/2020 dated 28 August 2020 | It has also been stated that if the desired objectives can be achieved by the funds under the government budget, the activities of the said funds should be terminated. Though it has been informed that action will be taken to get the allocation from the expenditure vote of Pension department to implement the activities of this fund and it was disclosed by note no. 4 that fund is not in active, no action has been taken to close the fund. | A special committee has been appointed by the treasury in terms of budget proposal No 425 & 426 of 2016 of public finance circular No 07/2006 issued in order to ensure that statutory and non-statutory funds are reviewed and to bring under the control of parliament. The special committee has submitted a report on 31 st March 2017. Accordingly committee has recommended that funds including the Local Government Service Pension Fund should be closed down by an Act of Parliament. However, there is no intimation as yet about taking any policy decision to grant approval to implement recommendation of that report. | Necessary arrangements should be made to close the fund. |
| (b) | Pension Circular No. 01/2012 dated 08 February 2012 | The reports on the deaths of members related to the fund in that month should be brought from the district secretaries before the 25 th of the following month and measures should be taken to update the deaths in time according to those reports. Due to not doing so, Rs.4,147,147 related to the | My letters dated 3/2/7 and 28 th February 2019 I have informed the secretaries of all local government bodies to inform about the death of members. For this purpose, they are requesting to send the information about the deceased pensioners to the | Action should be taken in accordance with the Pension circular. |

deaths of 583 members pension department and are between the year 2013 and working to provide the 2021 had been adjusted to the information available from contribution account and the Database along with the accumulated fund account in name documents to the the reviewed year. relevant local authorities.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs.22,710,992 and the corresponding deficit in the preceding year amounted to Rs.2,672,336. Therefore deterioration amounting to Rs.20,038,656 of the financial result was observed. The reasons for the deterioration are mainly due to the decrease in contribution income by Rs.4,022,827 and the increase in expenditure by Rs.16,015,828.

3. Operational Review

3.1 Management Activities

| Audit Observation ----- | Comment of the Management ----- | Recommendation ----- |
|---|---------------------------------------|--|
| <p>Contributions received from local government bodies during the year were Rs.91,246,749 shown as payments from the pension fund. However, in the year under review, due to the fact that contributions amounting to Rs.946,249,496 were paid to 44,018 pensioners using treasury allocations, the expected objectives of the fund were not met.</p> | <p>I agree.</p> | <p>Action should be taken to full fill the expected goals of the fund.</p> |