

## **Local Government Services Pension Fund - 2024**

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### **1. Financial Statements**

#### **1.1 Disclaimer of Opinion**

The audit of the financial statements of the Local Government Service Pension Fund for the year ended 31 December 2024 comprising the balance sheet as at 31 December 2024 and the income and expenditure account for the year then ended, and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy was carried out under my direction in pursuance of Section 62 of the Local Government Service Act (Authority 264), provisions of the Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with the 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.

I do not express an opinion on the financial statements of the fund. Because of the significance of the matters described in paragraph 1.5 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### **1.2 Basis for Disclaimer of Opinion**

I expressed disclaimer of opinion 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.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of these 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 determine 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 ability 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.

#### **1.4 Responsibility of the Auditor for the audit of 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 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 exercised professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks 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 its 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 statements or, if such disclosures are inadequate, to modify my opinion. 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 Non-compliance with Sri Lanka Public Sector Accounting Standards**

<b>Non-compliance with reference to relevant standard</b>	<b>Management Comments</b>	<b>Recommendation</b>
According to Sri Lanka Public Sector Accounting Standard No.01, although the fund should have been accounted for on an accrual basis, a contribution amounting to Rs.73,002,313 received relating to previous years during the year under review and for the reviewed year had been accounted for on a cash basis.	Since 2011, the payment of monthly pensions to beneficiaries of the Local Government Service has been gradually declining, and as this currently inactive fund is not being utilized for such payments, adjustments in accordance with the accrual basis are not being made for the pension payment.	Revenue and expenses should be accounted for on an accrual basis in accordance with Sri Lanka Public Sector Accounting Standards No.01.

### **1.5.2 Accounting Deficiencies**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Using Treasury provisions, a contribution amount of Rs.913,923,665 was paid for pensioners in the year 2024. Contributions received from Provincial Council institutions during the year amounted to Rs.73,002,313, and this amount	That it has been presented as an account note under number 03 in Note 02.	The result of the receipts and payments of contributions should be shown in the Income and Expenditure Account.

was recorded as payments from the Pension Fund against the contributions received.

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| (b) | Out of the total receipts of Rs.73,002,313 during the year under review, although Rs.14,732,111 related to the previous year; this amount was adjusted to the income and expenditure account as a transfer to the accumulated fund. | That the surplus or deficit in the income and expenditure account has been adjusted to the accumulated fund in accordance with accounting concepts. | The surplus or deficit in the income and expenditure account should be adjusted to the accumulated fund based on the contributions received and payments made for the respective year. |
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### 1.5.3 Un-reconciled Control Accounts or Records

	Item	Value as per Financial Statements Rs.	Value as per Corresponding Records Rs.	Difference Rs.	Management Comment	Recommendation
(a)	Contribution Receivable	856,093,490	156,162,270	699,931,220	This discrepancy is reflected due to cheques sent in December 2024 being received by us in January 2025, and therefore not being accounted for in December 2024.	Actions should be taken to confirm the contribution amount receivable through balance confirmation.
(b)	Contribution Receivable	101,640,065	107,596,345	5,956,280	Death removals related to the last three months of 2024 are processed through the December 2024 bills, while the relevant Provincial Council institutions are informed in January 2025. As a result, the fund balance appears understated	-do-

#### 1.5.4 Documentary Evidences not made available for Audit

Item	Amount Rs.	Unsubscribed Audit Evidences	Management Comment	Recommendation
Contribution Receivable	429,754,794	Balance Confirmation	Necessary actions will be taken to obtain balance reports from these Local Government institutions and make corrections accordingly in the future.	Actions should be taken to confirm the contribution amount receivable through balance confirmation.

### 1.6 Accounts Receivable and Payable

#### 1.6.1 Receivables

Audit Observation	Management Comment	Recommendation
(a) According to the financial statements, although the balance of contribution receivable amounts from 303 Local Government institutions as at 31 December 2024 was Rs.1,053,748,746, the local government institutions which no contribution was received during the year 2024 were 74, and the value of that was Rs.283,979,179.	That the efforts were made to recover the contribution amounts receivable by contacting local government officers through letters and telephone calls.	Actions should be taken to recover the contribution amounts receivable.
(b) According to the financial statements, although a contribution amount of Rs.988,462,216 was receivable as at 31 December 2024 from 50 local government institutions, it was observed that such payable contribution amounts were not recorded in the financial statements of those institutions.	This discrepancy is due to the cheques sent in December 2024 being received by us in January 2025 and therefore not accounted for in December 2024.	Actions should be taken to identify and reconcile the payable contribution amounts.

## 1.7 Non-compliance with laws, rules, regulations and management decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Management Comment	Recommendation
Public Finance Circular No.07/2016 dated 29 July 2016	The General Treasury appointed a special committee on 11 June 2016 to ensure the bringing all statutory and non-statutory funds under parliamentary control in line with an approved process of Parliament by the Budget Proposals No.425 and 426 of 2016 and although this committee recommended that the relevant legislation be amended and the fund be dissolved, action had not been taken to make a decision regarding that. Furthermore, the recommendation in the report to immediately recover the outstanding contribution amounts from the relevant institutions has also not been implemented	According to the report issued on 31 March 2017 by the special committee appointed by the General Treasury, it was recommended that the local government Service Pension Fund, along with other such funds, should be dissolved through an Act of Parliament. However, since policy decision has not been reported regarding the granting of authority to implement this recommendation, annual financial statements continue to be prepared and proper records are being maintained accordingly.	Necessary action should be taken to close the fund as per the instructions

## 2. Financial Review

### 2.1 Financial Results

The operating result for the year under review was a deficit of Rs.14,732,110, while the corresponding deficit for the previous year was Rs.16,701,878. Accordingly, a decline of Rs.1,969,768 in the financial result was observed. This decline was mainly due to the decrease in contribution income.

### **3. Operational Review**

#### **3.1 Operational Inefficiencies**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Although a register of members has been maintained under the Local Government Service Pension Fund since 2015, an updated register had not been maintained as the names of deceased pensioners were not removed from the register.	A soft copy of the updated register of members is being maintained.	The register of members including their names should be updated.