

## **Local Government Service Pension Fund**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in Paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Local Government Service Pension Fund as at 31 December 2011 and its financial performance for the year ended in accordance with Generally Accepted Accounting Principles.

#### **1.2. Comments on Financial Statements**

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##### **1.2.1 Accounting Deficiencies**

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The following accounting deficiencies were observed.

(a.) At the reconciliation of the balance shown in financial statements as contributions as at 31 December 2011 with the books of the Fund revealed that the balances receivable from 220 Local Authorities had been overstated by Rs.80,406,574 and the balances receivable from 72 Local Authorities had been understated by Rs.87,718,689.

(b.) The overall pension expenses of the year under review had not been computed and adjusted in the financial statements. According to the expenditure classification of the computer data system of the Department of Pension, the overall pension expenses of the Fund for the year under review was Rs.689,425,595.

### 1.2.2 Unexplained Deficiencies

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According to the cash book, contributions received from the institutions for the year under review was Rs.62,767,930 whilst according to the schedule of contribution received submitted along with the financial statements it was Rs.62,781,075 and therefore, the difference was Rs.13,145.

### 1.2.3 Suspense Accounting

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There was an unsettled balance of Rs.3,145,484 in the contribution adjustment account as at 31 December 2011.

### 1.2.4 Accounts Receivable and Payable

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Action had not been taken during the year under review too, to obtain money for or get settled the dishonoured cheques amounting to Rs.793,241 relating to the year 1998 and the previous years.

### 1.2.5 Lack of Evidence for Audit

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Evidence shown against the each of the following items shown in the financial statements had not been furnished for audit.

Item	Value	Evidence not made available
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(a) Contributions receivable from institutions	1,542,364,020	(i) Chronological Schedules (ii) Letters of Confirmation of Balances
(b) Contributions received from institutions during the year under review	62,767,930	(i) Chronological Schedules (ii) Contribution Advices

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

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The following non-compliances with laws, rules, regulations etc. were observed.

Reference to Laws, Rules, Regulations etc. -----	Non-compliance -----
(a) Government Financial Regulation 143 (3) (b)	There was deposits amounting to Rs.65,138 which had not been realized as at 31 December 2011 and action had not been taken to settle the above.
(b) Public Finance Circular No.PF/423 dated 22 December 2006	The budget for the year under review had not been approved by the Minister in charge of the subject.
(i) Paragraph 4.1 (a)	The cash flow statement for the year under review had not been furnished along with the financial statements.
(ii) Paragraph 4.3 (c)	The consolidated reports on monthly expenses of the Fund had not been obtained by the department of Pensions from the District Secretariats.
(c) Paragraph 2(iv) of the Pension Circular No.12/2010 dated 13 December 2010	

## 2. Financial Review

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### 2.1 Financial Results

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According to the financial statements presented, the operating results of the Fund during the year under review surplus was Rs.54,478,480 as compared with the corresponding surplus of Rs.56,901,123 for the preceding year, thus indicating a deterioration in financial results by Rs.2,422,643.

## **2.2 Analytical Financial Review**

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Contribution receivable from the institutions for the year under review amounted to Rs.122,978,480 and a sum of Rs.62,781,075 out of the above receivables had been paid to the Department of Pensions for payment of pensions of the Fund. Further, a sum of Rs.60,197,405 which is not received by the Fund out of the contributions accounted for as income for the year under review had been paid out of the Expenditure Head of the Department of Pensions. This had not been properly accounted for as an expenditure and this had been the main reason indicating the surplus of Rs.54,478,480 in the income and expenditure account for the year under review.

## **3. Operating Review**

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### **3.1 Performance**

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Section 18 of the Local Government Service Act No.16 of 1974 of the National State Assembly states, that the control covers the said fund is vested with the Director General of Pensions. But, contrary to this provision of the Act, preparation of pension sheets and the custody of files had been decentralized to the Divisional Secretariats with effect from 01 January 2011 by the Pensions Circular No.12/2010 dated 13 December 2010.

### **3.2 Management of Contributions**

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The following observations are made.

- (a.) According to the financial statement presented, the total of contributions receivable from institutions as at 31 December 2011 amounted to Rs.1,542,364,020 and of this 56.02%, 15.14% and 28.84% respectively were receivable from Municipal Councils, Urban Councils, Pradeshiya Sabhas.
  
- (b.) The contributions relating to Urban Councils for the year under review amounted to Rs.15,511,996 and a sum of Rs.18,933,532 including the dues for the preceding

year had been received. An analysis of institution' contributions relating to the year under review and the amounts in arrears in respect of the Municipal Councils and Pradeshiya Sabhas is given below.

Category of Local Authority	Contribution for the year under review	Contributions received during year under review	Contributions due for year under review	Contributions due as a percentage of the contributions for the year
	Rs.	Rs.	Rs.	%
Municipal Councils	82,575,769	27,552,734	55,023,035	66.6
Pradeshiya Sabha	24,890,715	16,294,809	8,595,906	34.53
<b>Total</b>	<b>107,466,484</b>	<b>43,847,543</b>	<b>63,618,941</b>	

- (c.) The number of Pradeshiya Sabhas which had not paid any contributions whatsoever in the year under review classified under each District is given below. The contributions receivable from those institutions for the year under review amounted to Rs.15,802,249.

District	No of Pradeshiya Sabhas	No of institutions not paid any contribution during the year under review	No of institutions not paid as a percentage of total institutions
Kurunegala	17	17	100
Polonnaruwa	06	02	33
Puttalama	09	09	100
Badulla	14	07	50
Anuradhapura	18	17	94
Mannar	04	03	75
Ratnapura	13	06	46
Kegalle	10	02	20
Monaragala	10	05	50
Ampara	13	10	77
Tricomalee	09	08	89
Vauniya	04	01	25
Nuaraeliya	05	04	80
Kandy	17	10	59

Jaffna	12	06	50
Batticaloa	10	09	90
Matale	10	07	70
Hambantota	09	06	67
Mulathievu	03	03	100
Kalutara	10	03	30
Matara	12	10	83
Kilinochchi	03	01	33
Galle	15	15	100
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	233	161	
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According to the above observation, the Fund had not show adequate efficiency in respect of collection of contributions.

#### 4. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought the notice of the Director General of Pension from time to time. Special attention is needed in respect of the following areas of control.

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| (a.) | Accounting               |
| (b.) | Budget                   |
| (c.) | Arrears of Contributions |
- Receivable.