

Local Government Service Pension Fund - 2012.

1. Financial Statements

1:1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 1.2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for and audit opinion. Accordingly, I do not express an opinion on these financial statements.

1:2 Comments on Financial Statements

1:2:1 Accounting Deficiencies

Instead of debiting a sum of Rs.12,852,672 to the income for the year as adjustments relating to the computation and revision of the contributions of the persons who had died in the year under review out of the members of the Fund of the Colombo Municipal Council paying contributions to the Fund, the Accumulated Fund had been debited. As such the Accumulated Fund for the year under review had been understated by that amount and the surplus for the year had been overstated by that amount.

1:2:2 Lack of Evidence for Audit

The Following observations are made.

- (a) The balance receivable from the Local Authorities shown under the contributions receivable in the financial statements as at 31 December 2012 had been overstated by a sum of Rs.187,490,163 than the balance of contributions receivable according to the Register of Bills. The management failed to produce the audit evidence explaining the difference.

- (b) Even though the expenditure on pensions for the year under review had been shown in the financial statements as Rs.93,900,000 according to the classification of expenditure of the computer database of the Department of Pensions, the overall expenditure on pensions of the Fund for the year under review amounted to Rs.837,302,193. As such a difference of Rs.743,402,193 was observed.

1:2:3 Unexplained Differences

According to the financial statements for the year under review, the arrears of contributions receivable amounted to Rs.1,497,506,586 whereas according to the schedule presented within the financial statements that amounted to Rs.1,496,838,592. A difference of Rs.667,994 was observed in the balance of contributions receivable as at 31 December 2012.

1:2:4 Suspense Accounts

Action had not been taken to identify and settle the unsettled balance of Rs.269,433 as at 31 December 2012 in the Contributions Adjustment Account.

1:2:5 Accounts Receivable and Payable

Action had not been taken to settle the dishonoured cheques valued at Rs.604,632 shown in the accounts. The particulars of those cheques had not been furnished to audit.

The Director General of Pensions informed me in November 2013 that these dishonoured cheques are existing from periods prior to the year 1998 and that the information on the cheques are being searched further.

1:2:6 Non-compliance with Laws, Rules and Regulations and Management Decisions

Non-compliance with the following laws, rules, regulations, etc. were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
(a) Section 20 of the Local Government Law, No. 16 of 1974 of the National State Assembly and Paragraph 4.3 of the Pensions Circular No. 02/2011 of 24 February 2011.	Action had not been taken in terms of Section 20 of the Act for the recovery of the arrears balance of Rs.1,496,838,592 payable to the Fund by Local Authorities from any money payable to the Local Authorities or for the recovery in accordance with the circular instructions.
(b) Public Finance Circular No. PF/423 of 22 December 2006 Paragraph 4.1(a)	The budget for the year under review had not been approved by the Minister in charge of the subject.

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the operations of the Fund for the year under review had remained in a surplus of Rs.25,963,371 as compared with the corresponding surplus of Rs.54,478,480 for the preceding year, thus indicating a deterioration of Rs.28,515,109 in the financial results as compared with the preceding year.

2:2 Analytical Review of Financial Results

Even though the institutions contribution receivable for the year under review amounted to Rs.119,863,371 only a sum of Rs.93,630,499 had been received. A sum of Rs.93,900,000 had been paid from the Fund to the Department of Pensions for the payment of pensions and the sum of Rs.26,232,872 not received out of the contributions

brought to account as income had been paid from the Head of Expenditure of the Department of Pensions. It was observed that any record of the money so paid had not been included in the financial statements of the Fund.

3. Operating Review

3:1 Performance

The bills for the Local Authorities had been prepared without eliminating the names of deceased members from the bill registers and as such the value of bills had been overstated. According to the data relating to the years 2011 and 2012 obtained from the Statistics Division of the Department, the number of pensioners eliminated had been 1,651. But, it was observed that their names had not been eliminated from the bill registers.

3:2 Management of Contributions

The following observations are made.

- (a) According to the schedule presented with the financial statements, the total of the institutions contributions receivable from the Local Authorities in arrears as at 31 December 2012 amounted to Rs.1,496,838,592 and out of that 55.43 per cent, 15.13 per cent and 29.44 per cent had been receivable from the Municipal Councils, Urban Councils and Pradeshiya Sabhas respectively.
- (b) The number of Pradeshiya Sabhas which had not paid any contributions in the year under review had been 242 and the contribution receivable from those institutions amounted to Rs.12,677,995.

3:3 The information on the payment of Local Government Service Pensions during several preceding years and the accounting for the contributions relating to those years is given below.

Year	Payment of Pensions	Contributions Relating to the Year
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	Rs.	Rs.
2009	944,733,709	136,674,797
2010	940,060,460	129,981,285
2011	689,425,595	122,978,480
2012	837,302,193	119,863,371

The following observations are made in this connection.

- (a) The pensions paid in the year 2010 had exceeded the payments in the year 2011 by a sum of Rs.250,634,865 while the payments in the year 2012 had exceeded the payments in the year 2011 by a sum of Rs.147,876,598. Nevertheless, the contributions for the years had been decreasing gradually. Any acceptable information for such decrease in the contributions and the increase in the pensions paid had not been furnished to audit.
- (b) Even though 1,651 pensioners had been eliminated in the year 2012 according to the data obtained from the Statistics Division, the expenditure on pensions had increased by Rs.147,876,598.
- (c) Even though the pensions had been revised in several instances during several preceding years, the contributions had not been revised accordingly.

4. 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.

- (a) Accounting
- (b) Budget
- (c) Arrears of Contributions

