

## **Local Government Services Widows' and Orphans' Pension Fund - 2014**

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The audit of financial statements of the Local Government Services Widows' and Orphans' Pension Fund for the year ended 31 December 2014 comprising the balance sheet as at 31 December 2014 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(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Order No.06 of the Local Government Services Widows' and Orphans' Pension Fund of 1985 enacted in terms of Section 23 of the Local Government Services Law No.16 of 1974. My comments and observations on the above financial statements appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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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**

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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 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 judgment, 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 Operation of the Fund**

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In terms of Section 14 of the Local Government Services (Amendment) Act, No.10 of 1985 and Section 16.a (2) (1) of the principle Enactment, it has been mentioned that the said Fund shall be administered by the Director General of Pensions. Nevertheless, the preparation of

Monthly Salary Registers and the custodian of the files of the Fund had been decentralized to the Divisional Secretaries from 01 January 2011 by Pensions Circular No.12/2010 of 13 December 2010.

## **1.5 Basis for Adverse Opinion**

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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**

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### **2.1 Adverse Opinion**

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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 Widows' and Orphans' Pension Fund as at 31 December 2014 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**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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Instances of non-compliance with the following Sri Lanka Public Sector Accounting Standards were observed.

##### **Sri Lanka Public Sector Accounting Standards 01**

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- i. The financial statements had been prepared on cash basis contrary to the Standard.
- ii. Comparative information relating to the preceding year had not been presented along with the financial statements of the year under review.

#### **2.2.2 Accounting Deficiencies**

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- (a) All receipts and payments of the Fund should be reported by the statement of income and expenditure of the Fund. Nevertheless, the provision received from the General Treasury for the payment of pensions and the expenditure incurred therefore amounting to Rs.699,478,303 had been reported through the General Account of the Director General of Pensions, thus the relevant income and expenditure had not been brought to account. As such, the actual position had not been reflected by the financial statements.
- (b) Action had not been taken to settle the balance of Rs.3,417,942 brought forward in the Dishonored Cheques Account since the year 1999. Instead, it had been adjusted to the Accumulated Fund during the year under review.

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

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The budget for the year under review had not been prepared and the approval of the Minister in charge of the subject had not been obtained in terms of the Paragraph 4.1 (a) of the Public Finance Circular No. PF/423 of 22 December 2006.

**3. Financial Review**

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**3.1 Financial Results**

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According to the financial statements presented, the operations of the Fund for the year under review had resulted in a deficit of Rs.55,299,750 as compared with the corresponding deficit of Rs.30,521,359 for the preceding year, thus indicating a deterioration of Rs.24,778,391 in the financial result as compared with the preceding year.

**4. Operating Review**

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Even though the monthly payment of pensions had increased continuously, a Reconciliation Register had not been maintained for the confirmation of those increases by identifying them financially. As an updated register of the pensioners entitled for the pension was not existed in the Fund, the adjustments had not been effectively made in case of deaths of pensioners. As such, the possibility of making double payments could not be ruled out in audit.

**5. Systems and Controls**

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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) Management of Pension Systems