

Local Government Service Pensions Fund - 2018

1.1 Qualified Opinion

The audit of the financial statements of the Local Government Service Pensions Fund for the year ended 31 December 2018 comprising the balance sheet and the Income and Expenditure Statement as at 31 December 2018 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 the provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 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 and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative to do so.

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

As per 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 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 judgement 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 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 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 audit's report to the related disclosures in the financial statements 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, ad 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;
- When the Fund has performed according to its power, 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 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 recoded 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 -----	Comments of the Management -----	Recommendation -----
The financial statements had been prepared by following the accrued basis for the income and the cash basis for the expenditure of the Fund, without taking action in terms of the Sri Lanka Public Sector Accounting Standard 01.	Agreed with the matter.	That the income and the expenditure should be brought to account on the accrued basis in terms of the Standard.

1.5.3 Unreconciled Control Accounts

Item	As per Financial Statements	As Corresponding Record	per Difference	Comments of the Management	Recommendation
	Rs.	Rs.	Rs.		
<u>Receivable Contribution Money</u>					
i. Ten Pradeshiya Sabha/ Municipal Councils	26,734,978	17,169,514	9,565,464	Agreed with the matter.	That the accurate value should be brought to account by way of disclosing the reasons for the differences.
ii. One Pradeshiya Sabha	86,383	258,533	172,150	Agreed with the matter.	That the accurate value should be brought to account by way of disclosing the reasons for the differences.

1.5.4 Receivables

The following observations are made.

Audit Issue	Comments of the Management	Recommendation
(a) The balance receivable from 292 Local Authorities as at 31 December 2018 had been a sum of Rs.1,285,727,817. Necessary action had not been taken to recover on a sum of Rs.218,898,449 of 126 Local Authorities and a sum of Rs.218,898,449 and a sum of Rs.926,069,312 being balances not being recovered for periods ranging from 5 years to 10 years and from 10 years respectively.	Agreed with the matter.	That, action should be taken to recover the outstanding Pensions Contribution Money without a delay.

(b) Action had not been taken to recover Contribution Money amounting to Rs.461,818,600 receivable from 94 Local Authorities in the year under review as per the Pensions Contribution Money Schedules furnished along with the financial statements.

Agreed with the matter.

That, supervision should be made that the Contribution Money is recovered monthly.

2. Financial Review

2.1 Financial Results

The operating result of the Fund of the year under review amounted to a deficit of Rs.29,722,408 and the corresponding deficit in the preceding year amounted to Rs.64,985,626. Therefore, an improvement amounting to Rs.35,263,218 of the financial result was observed in the year under review, as compared with the preceding year.

3. Operational Review

Management Inefficiencies

Audit Issue	Comments of the Management	Recommendation
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<p>This Fund had been established with the objective of paying pensions and remuneration to the members of the Local Government Service with pensions in terms of Section 15 of the Local Government Service Act No.16 of 1974. However, the addition of new members to the Fund had not been occurred from 03 September 1993 on the Provincial Public Officers being entitled to the pensions and the widows' and orphans' pensions benefits in the year 1993, that are entitled to Public Officers. The pensions expenditure had been incurred by the Annual</p>	<p>Agreed with the matter.</p>	<p>A proper study on the existence of the Fund should be carried out and suitable decisions should be taken by the management and action should be taken accordingly.</p>

Budget Estimates Provisions on not collecting the money of the new members accordingly, and on the contribution of the remaining members not being sufficient and the expenditure incurred in the current year accordingly had been a sum of Rs.1,085,161,850. As such, the main objective of the establishment of the Fund had not been achieved.